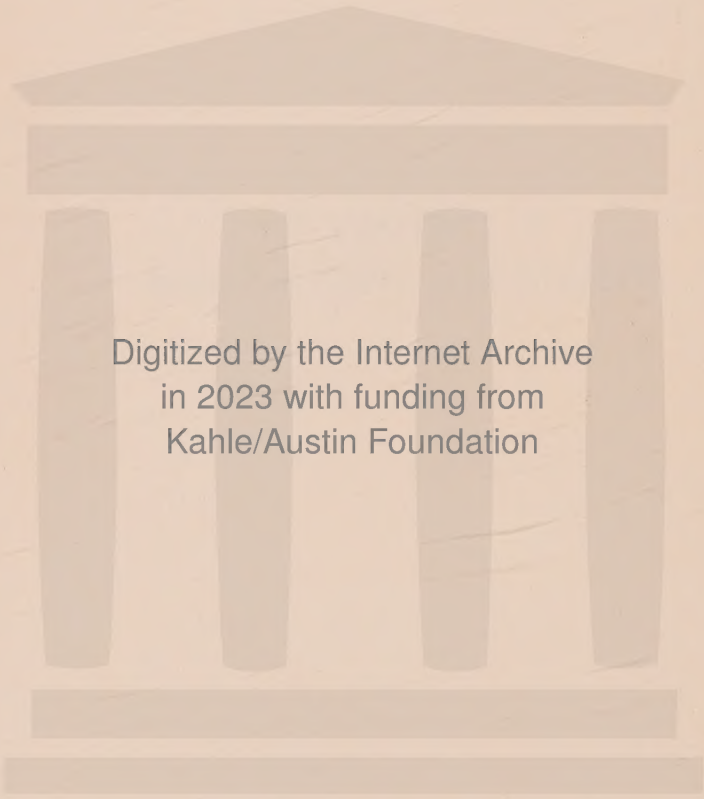


A HISTORY OF FINANCIAL SPECULATION

R·H·MOTTRAM

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A HISTORY OF
FINANCIAL SPECULATION



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MODERN WALL STREET

A HISTORY OF FINANCIAL SPECULATION

BY
R. H. MOTTRAM

WITH ILLUSTRATIONS



BOSTON
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1929

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TO MY COLLEAGUES, 1900-1927

THIS BOOK IS INSCRIBED

PREFACE

ANY one who hopes to find in this book novel views upon adroit punting will be gravely disappointed. The large meaning here given to the term Financial Speculation is designed to introduce to the general public who may be interested in it some account of a widespread faculty of the human intelligence, and not to discuss a narrow specialised occupation. Hence very little attempt is here made to extract new conclusions from well-thumbed records. The opinions of the better-known writers on the subject are considered in the light of the author's twenty-seven years' experience inside one of the greatest machines that exist, or ever has existed for the maintenance and allocation of wealth expressed in credit. He believes that such machinery, while capable of readjustment and certainly of improvement, is not susceptible of any further considerable development, and that, with more intelligent use, it is now, subject to the above reservations, ready for the service of mankind, which thus stands at the opening of an era of infinite possibilities.

Therefore this record is intended to be brief and suggestive rather than profound and conclusive, but among its obvious limitations the author hopes that the worst of all bigotries, economic finality, is not to be found.

R. H. MOTTRAM.

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A HISTORY OF
FINANCIAL SPECULATION

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PART I

THE "LOW WRETCH"

"HE speculated and lost everything." In how many works of fiction, in how many dramas, has not some such statement announced the climax, the catastrophe from which all well-constituted readers take a breath and look forward to the happy ending. Certain assumptions, deeply embedded in the reading public, the audience of modern society, consumers of such forms of edification and entertainment, are evident, and enable us to be rather more precise as to what the word Speculation has meant, in the worn but not necessarily debased currency of the English tongue in which it has been chiefly handled.

It is modern. That is established by the fact that the one self-justified censor of our tongue, Samuel Johnson, included no such meaning in the dictionary by the neglect of which Lord Chesterfield became so unwittingly, so unnecessarily famous. To the Doctor, so "long employed in the study and cultivation of the English language", who "lately published a dictionary like those compiled by the Academies of Italy and France, for the use of such as aspire to exactness of criticism, or elegance of style", Speculation was :

- (1) Examination by the eye; view.
- (2) (An) examiner; (a) spy.
- (3) Mental view; intellectual examination; contemplation.

- (4) A train of thoughts formed by meditation.
- (5) Mental scheme not reduced to practice.
- (6) Power of sight (not in use).

This is remarkable, written a generation after the events of 1720. But there it stands, reinforced, as the Doctor's definition always was, by Shakespeare and Temple, Hooker and Brown, and however the facetious may strive to make the actions of bulls and bears, bone heads and simps come within the scope of "Examination by the eye" or "Mental scheme not reduced to practice", to the serious the conclusion is that the word Speculation had not attained its modern meaning in 1754.

In 1858, however, the less Olympian, more discursive Maunder had heard of it. He had seen, and possibly felt more intimately still, a railway share panic, and, entrenched in the inimitable correctitude of Victoria and Albert, whose profiles decorate his title-page, he laid down at some length the nature of speculation :

"The practice of buying articles of merchandise, or any purchasable commodity whatever, in expectation of a rise of price and of selling the same at a considerable advance. In this it is distinguished from regular trade, in which the profit expected is the difference between the retail and wholesale prices, or the difference in price in the place where the goods are purchased, and the place to which they are to be carried for market. Speculation on a large scale, upon the principle of monopolizing, or that kind of speculation which consists in the purchase and sale of shares in public companies, as well as 'dabbling' in the stocks, and a variety of other hazardous transactions which might be named, are different species of gambling and are often no less ruinous."

Well-informed Mr. Maunder! Had he, one wonders, some relative who had "dabbled in the stocks", or embarked upon "the variety of other hazardous transactions — often no less ruinous", and did his definition depend on moral

scorn for the successful species of gambler or veiled envy of the monopoliser? We shall never know. But clearly, between these two attempts to standardise the English language a new form of human activity had come into being, had acquired a place in men's consciousness, a name, was subject to argument, and hence definition.

We may therefore date our meaning of the word "speculation", as first known, about 1850. This is astonishing. The thing itself is of immemorial antiquity. Yet Johnson did not include it in what he certainly considered a permanent contribution to human wisdom as exposed in English. It was not merely that he had never heard of speculation, he has no analogous process described under "Adventuring", "Merchant", or "Trade." Public funds he knows of. A stock-jobber was to him "A low wretch who gets money by buying and selling shares in the funds." But nearer still, "Stock", after eleven other meanings, has for him this one: "A fund established by the government, of which the value rises and falls by artifice or chance", which clearly shows that he had not the smallest conception of something which had become comprehensible enough to Maunder. What did he think Bassanio and Mercutio and Shylock were engaged in? They were engaged in negotiating values not dependent on immediate necessity.

Thus late there came to be named speculation, a thing which is inherent in human nature and has existed for countless centuries. Speculation has been present whenever and wherever man has escaped, even temporarily, from hand-to-mouth necessity.

Fortunately we are now in possession of some evidence as regards the first complications that ever arose in the human spirit. Those who have studied the flint implements of early man to such excellent effect during the last two

decades have thrown a new and brilliant light upon the two-legged, upright-walking mammal who ranged the chalk downs, above the reed-congested swamps along which oozed the tidal creeks that have been dyked and cleared into the shape of our rivers. During how many ages, by what accidents and intuitions, he gradually arrived at the point at which he knew for certain that the pear-shaped flint, poised on its lesser end and struck in a certain way, would yield flakes of imperishable durability, with an edge that could be worked up to such a keenness as to sever things he had hitherto severed with talons gradually becoming fingers, and tusks evolving into teeth, we cannot yet be certain; but that he did achieve such artificiality is not in doubt. There are now considerable well-classified collections of such implements, and one stands reverently before one of the slowly added accretions upon the mere human that go to make civilised man. He had done something that all nature about him could not do. He had armed his body with a foreign substance. Progress may be said to have begun when he first made fire. The hard sharp stone implement was a further great advance, and the dizzy vibration — the pace of twentieth-century life — though not very evident, was nearer by an age; for one thing is certain, intermixed with the making of flint implements was a new mentality. Not perhaps while one individual struck from one flint a dozen points or blades that sufficed for some short period until individually broken, blunted, or lost — that is not how flint implements are found. They lie often in drifts that extend far beyond the ridge that produces them, over soils to which they are strange. Why? Because they became an article of trade.

But more startling still are the inferences to be drawn from one of the principal finds of these implements. W. G. Clark says :

"Associated with the flint-mining industry of the Neolithic period is apparently a special culture . . . excavated at Grimes Graves, Weeting, which has been proved to be one of the most important prehistoric sites in the British Isles. Canon Greenwell partially excavated one shaft in 1870, and two were cleared by the 'Prehistoric Society of East Anglia' in 1914, and members of the Society have conducted excavations on the site almost every year since. As a result, our knowledge of no other prehistoric mining site in the country is so great as that concerning Grimes Graves. The oldest shafts discovered are roughly circular in shape, sunk through boulder clay and chalk to a depth of about thirteen feet, where the layer of fine flint known as the 'floorstone' was reached. These shafts are devoid of galleries, but are belled out at the base. The mining picks were formed of the long bones of animals, with wedges and choppers of flint.

"The two shafts excavated in 1914 evidenced a much more advanced type of mining. In order to reach the much-prized layer of floorstone it was necessary to sink the shafts through sand, chalky boulder clay, and chalk to a depth of 30 feet, and then tunnel in the chalk in all directions in order to obtain the flint. The shafts were roughly circular at the mouth, one with a diameter of 42 feet, and the other of 30 feet, funnel-shaped in the soft layers and vertical in the chalk. From the base of each shaft there were eight galleries, which led into those of other shafts, so that it is evident that there is a perfect maze of tunnels about 30 feet from the surface, over most of the area of the Graves. The flint, which originally formed the floors of the galleries, was removed and utilised, but the chalk taken from one gallery was piled up in others that were disused, and when one shaft ceased to be worked it was filled with material taken from other shafts that were dug near by. The process of filling in does not appear to have been continuous, and the presence of fire-places with burnt flints and bones and charcoal at various levels in the shafts shows that when partially filled these were used for temporary habitation.

"Flint axes of remarkable type came from the galleries, and the presence of thong marks on the chalk walls of the shafts indicated the method by which the flint, and possibly the miners themselves, reached the surface. The commonest miner's tool was the pick made from an antler of the red deer. The crown of the antler and

the second and third tines were removed, in a few cases by cutting, but usually by fire; the beam was then used as a handle and the brow tine as the pick. When this became broken or blunted the tool was discarded, and in the two pits excavated some 244 of these antler-picks were discovered. In many cases the handles of the picks were worn smooth by the hands of the miners, and in a few instances the finger-prints of the original users were vividly impressed in the chalk with which some of the picks were covered. As is but natural in a settlement which apparently originated from the presence of excellent flint, implements of that material are the most numerous of the objects found during the excavations, not only in the shafts and galleries, but in many 'floors' a few feet from the surface which have been explored. Although most of these types have been found associated with the flint-mining industry, either in this country or on the Continent, they have not been found at other stations of the Neolithic Age. It is possible, as I do, to look on these implements as representing a homogeneous flint-mining culture of the Neolithic Age, or to assert, as do some excellent authorities, that at least some portion of the industry here represented is contemporary with the Palæolithic 'Cave' periods of Le Moustier and Aurignac.

"The fauna and flora furnish the strongest support for the view that this is a Neolithic mining industry. When the flint mines were worked it appears that the district consisted of open woodlands, the chief trees being Scotch pine, beech, and poorly grown oak, though yew, spruce, and sallow also occurred. From bones and teeth, it is possible to say the beaver made dams in the neighbouring river valley; that red and roe deer dwelt in the woodlands; that dogs and foxes lived in the district; and that horses, oxen, sheep, and swine, either wild or semi-domesticated, formed part of the food of the miners. Of the smaller animals of which the skeletons were found, the common shrew, common mole, rabbit, long-tailed field mouse, field vole and bank vole were represented, but the most abundant remains were those of bats, of which four species — Daubenton's, Natterer's, Bechstein's and the Whiskered Bat — were found in the galleries, which formed a highly desirable roosting-place. The thousands of shells of molluscs formed part of a woodland group requiring shade and moisture.

"Apart from the evidence derived from the mining shafts, many



THE FIRST SPECULATION

Prehistoric Flint Mine with Deer Antler Pick, near Brandon, Suffolk, England

parts of the area — which probably includes about 400 pits — are occupied by working and habitation floors, from a few inches to a few feet below the present surface. Fourteen of these were excavated at the same time as the shaft, and yielded not only some of the finest implements, but also pottery and mammalian bones.”

So far the archæologist. What evidence does he provide for the economist? Proceeding with the utmost caution, we surely gather some notion of the antiquity of our subject. Here is an “Industry” that is prehistoric. That is old enough for our purpose. Our interest lies in trying to imagine the motive that induced prehistoric man to undertake the labour involved in sinking four hundred pits, clean through strata of which the components were of no use to him until he got what he wanted. Here was no casual scratching of the surface to obtain a flint that, by providing a handful of implements, ensured to-morrow’s breakfast, a hide or two, and weapons for single combat. The effort on so large a scale was obviously sustained and, in a primitive sense, organised. The people who made it were “miners”, specialised to the industry, who lived, witness the marks of habitation, in or about the mines. They produced more than they could personally or directly use. Shafts sunk to a depth of thirty feet with a diameter of forty-two feet, with a system of galleries at the base, are not made by men whose minds are limited by the fear of feeling hungry to-morrow. They were necessarily provided for and protected while carrying out what was, to them, a considerable feat of engineering. Some of the product was carried a considerable distance, for use or barter. In short, prehistoric man had already parted company with immediate necessity. He acquired commodities of uncertain future value. To him the bargain was imminent, the market, in embryo, a corollary. Thus the speculative faculty was born.

This disposes of the appearance of modernity that the recent nature of dictionary definition might lend. From immemorial time the speculative faculty formed part of man's dawning intelligence — of man's collective intelligence, for from an equally early date the faculty was not universal. It may even be doubted if it was ever widely distributed. The young, the old, almost all women, in the primitive state, can have had no spare energy for so exhausting an enterprise as thinking of the morrow. For lack of any evidence, we can only vaguely imagine that great mass of patience and apprehension with which the non-combatant members of the early family and tribe regarded the adventurous spirits that always wanted to be up and doing. Only the best vitality, from adolescence to hardening middle age, in physically perfect types, could dare more than the moment demanded; from the faintest beginning of a shadowy congregation, which is all we can see of primitive society, legend had brought us the blind man as soothsayer, the lame man as artificer. The doer of great deeds became hero, chief, frequently God, or God's substitute, as well. There is no trace here of the speculative mind. The authority of the theocrat was absolute. He led the thinking as well as the fighting. Human relationship was close, personal, patriarchal. This can be traced in the disposition of the Cretan house, as much as in the tent of the patriarch. It was only when the function of priest became differentiated from that of hero that we can again get a glimpse of the speculative, and that from outside. All the passive, ineffective, helpless elements in humanity did get their revenge.

‡ The moral order, the religious taboo, were always directed against the speculator. As in all human affairs, the reasons for this were mixed. The deepest religious instincts despised him as material-minded and actuated chiefly by hope of

gain. Prometheus was hated by the Gods. This, as we shall see, is only partly just. A healthy cynicism may add that he was also feared because he threatened to become important; he offered material progress as an alternative to the consolations of religion. Thus we find that speculation varies inversely as the control which any of the larger religious systems have been able to maintain over certain peoples. Where, on the other hand, religious observance has been pruned back to some direct appeal from the individual to God, speculation has become dominant, because such forms of religion can only be maintained by very vital types — witness the Jews, the Parsees, the Quakers. Further evidence is afforded by the marked manner in which the Irish become materially prosperous directly they move outside their island parishes. Of all the millions who have repeated the beatitude “The meek shall inherit the Earth”, how many have reflected upon its exact meaning? The truth contained in these six words is plain enough in the pages of history. The speculator never inherits the fruits of his effort. Absorbed, like the artist, in his effort, the truer he is to type the more certain he is to die in harness. Humble populations succeed to the benefits. Of these three religious denominations that have set on foot the system of credit upon which the modern world exists — and credit is perhaps the greatest achievement of the speculative faculty — we see every day the Quaker fortunes dispersing, the Parsee becoming more obscure, the Jew yielding up his nationality. The moral scorn so continuously poured upon speculation is therefore over-emphasised. The speculator’s fate is inherent in his virtues. His reign is short, often the shortest of any of the leaders of humanity. Nor is this necessarily because of the incidence of casualty, enshrined in the good wives’ wisdom about the pot that went too often to the spring. The

speculator, particularly as civilisation advances, garners his gain in the form of credit. Now credit, extraordinarily permanent in itself, is economic perpetual motion. The ball must be kept rolling, and rolls inevitably, in the end, over the individual. For static permanence we must always go back to the territorial owner, rooted in the soil, who plays no part in speculation proper. Where are the ancient merchant classes and banker families whose rise was so brilliant, whose reign, measured historically, was so brief? It was one of the illusions of the nineteenth century that individual trading was more durable than land-owning. We know now that this was a phase. Where are Tyre and Carthage, the Lombards, the Fuggers? The answer is that many a primitive local stronghold is more visible, many an obscure squirearchy has proved more permanent.

But if the speculative element does not need such drastic condemnation, it does need, and always has needed, regulation. Here, again, the nineteenth century has misled us. Freedom of trade has meant a great deal more than mere immunity from taxation. It has meant freedom from inquiry and regulation, which were always a necessary basis of taxation, and which, we can now judge, have often been the more bitterly resented. Absence of import duties happened to suit the particular stage of development that was going on in England about the middle and up to the end of that speculative century. This accident was erected into a theory, a creed, a moral law, and given a supposititious antiquity. As archives are thrown open and new facts come to light, they all go to show that economic history is one long story of the struggle to regulate the speculator. The average common sense of humanity is never so widely at fault as to mistake the main tendency of some strong marked faculty in its midst. The eternal levelling of man's equal destiny operated here as

everywhere else. Personal greed and ruthlessness, more or less justly ascribed to the speculator, were sufficiently urgent reasons for keeping at him. But deeper down in the human heart was the everlasting "This fellow is getting on. Why is he? Why can't I?"

The individual of less prescience or physical energy felt that some one no more worthy than himself was getting away with a reward more than commensurate. Knowing himself to be unworthy of riches and honour, many a man disliked the thought that another should be worthy. Thus kings and Parliament never had any difficulty in obtaining support for enacting that "new-fangled ideas" — as speculation has most often been called — should follow some well-worn course. In the main, however sordid the motive, the result was, correctly enough, that the speculator was forced to benefit the community at one point or another, sooner or later.

It could not be expected that he would like it. History rings with his expostulations. But as with all artists, the genuine sound that can so often be detected is due more to the feeling of irksome interference with what he was divinely commissioned to do, than to the actual monetary loss involved. And also, as with all artists, much of the attempt to restrict him proceeded from his own kind, who felt more poignantly than humble, more drudging men how necessary it was to keep him, the successful individual, in his place.

Before we leave the motive of personal gain, so frequently attributed to the speculator, we must see through another popular misconception, enshrined in Maunder's definition, that the speculator is one who buys in anticipation of a rise in values. But speculation has two dimensions, and the seller for a fall — or bear, in the most recent gibberish — is just as ancient in his origin as the bull. All fluctuation results from

the eternal discrepancy between supply and demand, and the first bear may have been an antediluvian who, having seen three red deer killed by a falling tree, hastily bartered his own deer-skin for a faggot of firewood, certain that, on the morrow, he would repurchase it for half a faggot. It is only when we keep in mind the two dimensions that we are able to conceive of the speculator's ultimate place in society, as regulator of supply and demand. We shall be able to review very early instances of this, but naturally the whole subject becomes increasingly easy to approach as we come to times of relatively high organisation. As, one by one, the ancient authorities, king-priest, king, and priest, disappear, the initiative falls into more or less certain hands; the old stability of practical or partial ownership of one human being by another gives way to scores and hundreds and thousands of jarring individual ownerships.

The speculator class thus not only increases in numbers, but the opportunities of each are reduplicated. We shall see how simple a thing it was for an English king not unkindly to dismiss the Jews, and how complicated a matter for them to return to England. Little did those hard-pressed individuals who received them on their return suspect that they would be instrumental in bringing back with them that greatest of all speculations, the regulation of international credit. Between the two events there lie, however, some pregnant centuries. The alteration of the attitude towards interest is immensely important. Here, again, a wide view is necessary to comprehension. It is easy enough to dismiss the early Christian and mediæval view as being archaic. Undoubtedly: but let us reflect upon the circumstances under which it was formed. The East had groaned for untold centuries, and still groans, under the village money-lender. The earliest notion of money was of a piece of precious metal, hid-

den in the ground, doled out at extortionate rates to peasant or craftsman, who could never repay, but who could be made the object of direct, personal, continuous tyranny. Under such a system no economic science could be learned, and the very basic truth, that nothing in economics is stationary, that everything fluctuates, was hidden behind a screen of pettifogging rapacity. The fact that every tilled field, every handicraft practised, is subject eternally to two continuous influences — depreciation and usufruct — is a discovery that has only gradually been made, during long centuries, and it is by no means universally understood in the present year of grace. Its partial recognition is, however, permanently established in the practice of public bodies and trading corporations. In their budgets and balance sheets there is at least a working acknowledgment that every activity in which man can embark, every object he can create, is subject to a wastage that has got to be allowed for, and a product that can be enjoyed. Land must be manured, worked, or fallowed, premises and plant must be repaired, maintained, renewed.

The product that will result is inevitable. Where that product is less than depreciation and cost of production, the activity, whatever it may be, will eventually cease. But until that extreme event, everything that man can do bears interest, and cannot avoid doing so. The mediæval noble, the ecclesiastical house, that pursued the usurer, and all the more vindictively because he was so frequently of alien race and religion, did so oblivious of the fact of the atrocious usury at which they themselves lent, or allowed the use, to the labourer and craftsman, of land, material, or tools, taking the whole of his waking hours, owning his very life and leaving him the barest pittance, regulated by the necessity of keeping him sufficiently alive to work and reproduce himself.

We shall find that the owner class of Christian feudal

Europe denied to every villein the smallest attempt to better himself, and human progress might well have remained stultified in castle and abbey had not economic pressure, produced by accident, done what religious profession and chivalrous training had never brought about. Thus came into being the tenant for money instead of military service, and with him the return of the fluctuating value. The feudal system kept trade cramped down to a gigantic system of supply, feeding upwards to spiritual or temporal authority. Once the actual producer became possessed, even permissively by rent, of the means of production, the modern world began to move. In England especially, in Christian Europe generally, the attempts to finance it were comic. There was no native instinct or knowledge of the precious metals, the indispensable basis of the crude cash bargain of the period. The Jews, whatever peoples or individuals were grouped under the common anathema, could not be tolerated. They obtained a hold, showed a prosperity that owed nothing to noble birth or sacred habit. Everywhere the same subconscious jealousy seems to have prevailed, and the word infidel, the charge of usury, conveyed in force, if not in accuracy, the amazed resentment of the native notable. England was an island, and the problem was simpler. The Jews could be deported. With what unconscious irony were not the men of Venice allowed to enter in their stead.

It was through some of these Italian merchants — or at least merchants hailing from Italy — that the taboo on interest was not removed but circumvented. In dealing with the Levant, it had long been found necessary to initiate what we now know as a "bottomry" bond, or advance of money against a cargo shipped. The larger sum by which it was repaid was made so by a margin, interest, which of course was not wrong, but the reward of risk and use. As usual, how-

ever, the astonishing lack of humour had the most recondite results. There came to be a class of rudimentary financial experts native to this country, and able therefore to hand on to English-speaking North America, with its infinite possibilities, all inchoate in the womb of time, the means and the habit of speculation, which in most European countries was absorbed by the Jews. Once interest was permitted, there was set on foot that process which has ended in the specialisation and separation of finance from industry, which is so marked in the latest development of the economic world. But interest alone could not achieve this, nor was mankind ready for so abstract a conception as credit, which interest infers.

The mere facility of loanable capital at interest might not have greatly promoted speculation, so long as trade remained largely confined within the mercantile States of feudal Catholic Europe, with its self-supporting units and its mind preoccupied with holiness and valour. But the mercantile State presupposes a national and centrally directed energy which had overcome and fused the local importance and diversification of noble and churchman. And just as the States of Western Europe were becoming national in outlook, there occurred the opening up of new worlds, East and West. With startling rapidity a new political economy, embracing problems of which the feudal Catholic world had never heard, started up. The adjustment of organised society in Western Europe to the dimly seen contingencies was necessarily slow. To many an earnest soul it must have seemed the veriest retrogression. Loanable capital at interest had been white-washed sufficiently to pass muster before the canon of the Church. The actual bodily ownership of man by man had been allowed to fall into milder forms, until the manor was tilled by men who might be tenants, but who were certainly

not slaves. The new world made demands upon the existing economic system that burst its bonds on every side. Voyages became longer and more hazardous, labour in remote lands could only be supplied by slavery; and back from the new lands came flowing a stream of those precious metals which have always been fraught with what the superstitious have been used to call a curse, but which really amounts to a violent economic stimulus, derived from high value in small dimension and convenient form, and pregnant with all that reaction that follows any stimulant.

Thus it came about that just as speculation was escaping from moral stigma, events threw it once more into a shape in which it could always carry the shadow of obloquy. The businesses of money-banking and insurance made their first tentative steps. The slave trade was born; and the easy acquirement of precious metals brought with it those results that we connect with the "gold rushes" of the nineteenth century. The more remote consequences have been with us ever since, for even at the present day the countries discovered by the navigators are not fully exploited; Wall Street and other markets have been added to Threadneedle Street, and the disparity between the successive waves of supply and demand has been greater than ever. The slave trade, it is true, has yielded to centuries of outcry and agitation, but has left to North America a problem of which Europeans hear comparatively little, but which cannot be dismissed as settled and solved. The flow of gold and silver relaxed the energy and sapped the vitality of Spain, and at the same time excited envy and brought in its train the naval and colonial wars of the eighteenth century.

Thus speculation, which the mercantile kings who closed the feudal era had fostered on lines of national utility, not always wisely but generally with the best intentions, took a

vastly inferior place in the schedule of human attributes. The element of personal gain became greatly exaggerated, and the ruthlessness of the money-lender became enlarged into the obliviousness of remote consumers, who had no difficulty in ignoring the conditions under which so much of all that they created the demand for was produced.

The creation of credit instruments was the next great stride in the history of speculation, and set the speculative faculty free altogether from the commodity basis of the old cash trade between individuals. It became possible to deal in shares in businesses of which the shareholder did not know the first operation; to live by commerce of bills, the name upon which was not that of a personal acquaintance, but a market legend.

The paper symbol usurped the place of the cumbrous bale, and the human intelligence that had created this situation from physical accident showed itself as incapable as ever of controlling the spirit it had called out of the lamp.

Even so, the individual could not develop the speculative faculty by isolated effort, and in every case speculative markets in symbols of credit, expressed on paper, were the creation of communities. War has always proved a likely field for speculation, on account of the extreme disturbance of values that may be occasioned by the fate of a dynasty, the destiny of an entire nation. The generation of great wars that began in the seventeen-seventies — and only concluded in 1815 — was a prolific field for the speculative mind, particularly in the new dimension of national credit and international transfer. A typical institution, the house of Rothschild, grew to power during these convulsions, and, though it has remained markedly international in character, has added to the actual machinery of speculative possibility a new avenue.

But as surely as the stigma returned, so did there return the eternal justification of the speculative faculty. To take a risk for risk's sake, for the pleasure of the thrill, for the vanity of success, is the mark of the pure gambler. No gambler proper looks upon gaming as his livelihood. It is said that the bookmaker never bets, or that if he does he goes to pieces as an earner. From the earliest shadow of its present form speculation has always meant the taking of risk in order to exorcise, circumvent, and nullify risk. Necessity, dourly present in starvation and murder, first taught man to think of the morrow, and by taking thought, to live until the day after. Early trade adventuring was undertaken to broaden the paltry circumscribed local market, or to create a new market where none had existed before. With every successful adventure the total risk of the world has diminished. Rent and interest formed at once the rewards and the further stimulus to the speculator, the former springing from the breakdown of feudal tenure, the latter introduced as part of the inevitable speculation attendant on maritime trade. The ultimate effect of both, however, was so to remove the imminence of risk that we have to-day before us the common spectacle of a whole class able to exist upon rent or interest derived from adventures undertaken generations before their birth, often in total ignorance of the conditions which give rise to the steady flow of credit that maintains them. Yet so inherent is the speculative tendency that these sterilised classes are found to be capable only of dwindling reproduction, while an inevitable attrition wears down or disperses the accumulation on which they have existed.

Thus we arrive at the paradox that speculation tends to annihilate speculation, but that the absence of speculation thus annihilated demands renewed speculation, and it is with this continuous counterpoise that we must deal.

We have seen how speculation escaped from the strict injunction of the Church against interest, the only practical working reward of risk. We have noticed, and shall follow in greater detail, permissive speculation, that rendered possible the first industrial steps, the early maritime adventures of the infant industrial State. Under close supervision by government charter, staple, or other artificial check, often actuated by royal initiative, like the first colonial settlements and voyages of exploration, the speculative element came to be recognised as a factor in human affairs that had to be dealt with, and could not be ostracised or removed. It is only fair to set side by side with the revolting callousness that reintroduced slavery after a thousand years, the immense broadening of life that is to be seen in every department, from mere dietary — revolutionised by the introduction of unheard-of foodstuffs that either became acclimatised to the soil, or the object of regular organised import — to the new vision of personal liberty. That which began as the privileged greed of Philip of Spain, the mean acquisitiveness of Elizabeth, the peacock vanity of Louis, ended as a system of emigration that has enabled millions of humble individuals to walk away from civil or religious tyranny, under which they must otherwise have languished for generations. With the industrial and economic tyranny that still exists, we have completed the circle and returned to the background of necessity that has always been present, more or less realised, behind human affairs; of this we shall see more in its place.

Financial speculation proper, speculation in figures denoting credit as divorced from merchandise actually in existence and exchangeable, brings us to the common vulgar meaning of the word, to its inclusion in dictionaries of the language, and its common currency in conversation. Written and signed or sealed credit instruments are very old, and their

gradual codification and adoption into universal and everyday use has been as slow as most of human progress. The startling suddenness with which speculation in credit made its appearance in Western Europe at the beginning of the eighteenth century, depends on a concatenation of accidents. Perhaps the most important of these in England was the contemporary political atmosphere. This island had just finally parted, after two centuries of loosening and weakening of the ties, with the old sanctions and authorities. When James II. embarked and left these shores, there voyaged with him theocracy, the Divine Right, that acknowledges nothing beyond it but a sovereign pontiff. The natural organisation that replaced these old standards had every appearance of an upstart venality. Those who had leisure and capacity for reflection were saddened; we catch the note in Johnson. A king by appointment, a church established like any other public service, have none of the age and mystery of those which they displaced. The moment was that at which England became permanently unable to pay its way; hitherto, by fair means or foul, the nation had put down cash for its disbursements. Now it gave up the struggle, in the creation of the National Debt. One cannot help feeling that this set an example in England; and once government intervention had more or less mitigated the disaster of the South Sea Company, the first country banks began to develop the accumulating resources of Britain's infinite riches.

The lack of any parallel causation in France shows how widespread and international was the spirit. As usual, man had created something for his use, which had run away with him as promptly as the first centaur with its prey. The old moral embargo was lacking, the old royal prerogative equally so. Parliament was not capable of grasping the new tool that the nation was adapting to its own use, and the check

upon speculation was simply the comparatively slow movement of marketable values, the small circulation of credit instruments. Fortunately a moral basis was furnished in England by the probity and industry of the rising sect of Quakers, who set a high standard in banking as in private life. But the speculative element is never constant. It can find its only natural — as opposed to artificial legislative — check in its own hypertrophy. We are increasingly obliged to turn to our own economic history for evidence at this point. The East was still asleep, the far West virtually uncreated, Spain and Holland exhausted, France not yet enfranchised from spiritual and temporal potentates. Events began to prepare for the definition of speculation that we find in the dictionary.

Then came the extraordinary disorientation of the British Colonial Empire, and the war generation of 1777 to 1815 which obscured any steady line of development. Once this was over, we come to the marketable share, the organised and recognised stock exchange, and political economy.

The new check upon speculation was simply its own success. As the recurrence of what were supposed to be periodical panics made this manifest, the cant parlance incorporated "speculative" as an adjective of permanent, if qualified disparagement. We may ask "What is a speculative investment?" The answer is "One which holds out an unusually high return as compensation for an unusually high risk." Unfortunately man's moral faculty is no more permanent than his speculative. Morality begins to look rather complacent when we find that our financial sacerdotalists, like others, have their price. It is perhaps over-cynical to substitute for the above definition: "A speculative investment is one which has been found by experience to be unsuccessful." The more scrupulous of us are inclined to beware how and in what tone we use the adjective "speculative." The

railway mania of the 'forties ruined many, but created a fine national service for many more. Would that great amenity ever have been placed at the disposal of the public by the right-minded and the discreet? The answer is, not until humanity is very much more intelligent and better organised than it is at present.

Or let us view the matter from another side. In Maun-der's definition we have the distinction between "speculation" and "legitimate trade." What is legitimate trade? There can only be one answer — satisfaction of moderate needs by cash transactions liquidated on the spot. This view is canonised by the action of the British Government during the War of 1914, when only cash purchases or sales were permitted on the Stock Exchange. Shall we then revert to a partly cash basis, and eschew this horrid speculation? Shall we? Then the whole fabric of credit perishes, and our unwieldy populations starve. We are therefore reduced to the chastened mood of describing those transactions which are not to our individual taste as more or less speculative. This relative condemnation remains merely a matter of opinion until stock has slumped or paper does not circulate, until there is a glut, an over-production. Then we can apply the rule-of-thumb but vivid test of "How much have you lost?"

The first conscious effort to deal with the vastly increased means and desire for speculation was the curtailment of risk. Limited liability had no other object. It is almost impossible for us now to put ourselves back into the frame of mind of the early Victorian, allured by new fields of gain, deeply conscious of Biblical admonition, so much more literally regarded then, in a world crying out for new capital, as it had never, until that day, cried before, and increasingly populated by a new volatile, unlanded public, ready to lend. The attitude that crystallised out of so many new conditions, so many

contradictory tendencies, was one of discrimination. It is to this that we owe Maunder's and kindred definitions of speculation. In plain English, the word was now qualified by the unspoken proviso, "It all depends on what security you speculate in." Thus we find the most respectable joint-stock bank long prevented from establishing itself in London. The unlimited liability of the private banker was felt to be a check upon his operations. Yet gradually this highly placed prejudice was overcome, not without producing, however, an effect that is noticeable in the quality of speculation. Each of the successive crises that convulsed British credit during the century shook out some of the mere punters, who were first observable in the 'forties. Greater publicity was also a factor, in a moneyed public still not enormous, but now mainly composed of men capable of reading and forming some conclusion from statements of accounts. The whole subject tends, at this period, to become increasingly insular, as Great Britain took and long enjoyed so great a lead in financial development. It may possibly explain the high preponderance of inscribed or registered stock, on which a dividend was a matter of declaration, to be found with us, as against the Continental and American habit of bearer securities with fixed return.

In England, therefore, speculation began, during the nineteenth century, to be partially admitted, subject to the moral inhibitions peculiar to this island, and to a certain rhythm in our economic habit, known as credit cycles, and further to the rapid social evolution characteristic of that century, by which men continually rose from the labouring classes to small ownership and management, passed thence to financial speculation, or to providing the means for it, but always kept in view in eventual stabilisation of their fortune in trustee stocks, or in landed proprietorship. As the century waned, however,

speculation, now a defined human activity with a place in the dictionary, began to find at least two other considerable centres, Paris and New York. The growth of these stock exchanges was far more chequered than that of the London market, by Continental war and domestic upheaval. Nor were our peculiar characteristics transmitted. In France, a more rigid social and economic organisation, based upon peasant proprietorship, has kept financial speculation rather confined to a special class until very recently, the mass of the country providing a background of industry and saving, but actively participating to only a slight extent, and very recently. In the States, the entirely different conditions prevailing are manifest in the national attitude and extend over the borders of the United States proper, and are found to exist in the more lately developing States of the American continent. The difference in outlook between the London and the New York speculator is the difference between exploiting markets which are often geographically remote, and have already acquired certain limitations of habit and environment, and, on the other hand, having a new world on the doorstep, asking to be opened up and supplied with everything. This much is obvious; but who shall exhaust the list of causes which have contributed to make, in less than a century and a half, a people, English-speaking, but of the most diverse race and nationality, and sometimes actually anti-British in sentiment, masters, by right of purchase, of the Old World as well as the New? Only the most prominent characteristics, of vital importance, can be dealt with. The first we may consider is mental outlook. In spite of a large agricultural population which, while it cannot be for one moment classified with the peasant class of the Old World, yet shares with them the basic anchorage to the soil, the speculative habit is more widely spread. Why? Oppor-

tunity is one thing; outlook, handed down from old colonial days, is another. The inhabitants of North America never were merely farmers. The strong preponderance of Quaker and other religious beliefs which, as we have seen, have always kept finance inside instead of outside the moral code, cannot, one feels, have been without effect, and tacked on to this is a relatively high and evenly spread standard of education. What else? A climate, more extreme and more stimulating than most. Perhaps a predatory instinct that may have come right from the day when the first settlers found themselves faced with nomad warriors and were forced to shoot first and argue afterwards. And once again, and above all, a new world waiting to be made, with no native or local civilised institutions, too big, too suddenly discovered, too vital in its possibilities to be fashioned within the slowly formed restrictions that its present possessors' ancestors left behind when they quitted small, already partially exhausted and rigorously partitioned Europe. Left behind! A considerable proportion of the present population of the States crossed the sea in order to escape these very restraints of monetary stringency, over-population, limited future that hold the Old World down. There are even further points in internal organisation that have immeasurably facilitated the relatively widespread speculative element in the United States, which we shall investigate in their place.

The closing years of the nineteenth century therefore found financial speculation properly established in definite markets in London, Paris, and New York, and to these were gradually related provincial exchanges which might be self-contained markets for a number of local investments, but whose main importance depended on the three greatest markets for negotiable securities, which three became increasingly interdependent as communications improved, this progress inter-

acting with that made in the practice of inter-quotation, the marketing of classes of security of definitely national character in foreign markets. But the recent (1928) announcements of the quotation of stocks of American or European origin, in London, New York, or elsewhere, as though they had been previously confined to their home markets, is misleading to the uninitiated. Undoubtedly greatly increased technical facilities have lately been devised for marketing on an international scale by individual investors. Such changes, however, merely confirm and popularise a state of things that has always been the case. Early in the eighteenth century considerable sums of English Government securities were held abroad. The particular service which the Rothschilds were able to perform for the Elector of Hesse-Cassel during Napoleonic times was not quite that sometimes pictorially represented. "They took care of his wealth," runs the legend. Actually they bought him consols. Moreover, most of the alleged "credit cycles" of the nineteenth century were increased in gravity, if not initiated by events abroad.

To the three largest financial markets may be added various others of more fluctuating importance. That of Amsterdam is one of the oldest, the most closely related and similar in habit to that of London, for currency organisation is nearly allied to that liquidity which is necessary for speculative activity; and it would be difficult to give any reason for the comparatively small progress, the steady unvarying second place, which Amsterdam has made and kept in international finance, or to affirm that the only other free gold market besides London may not even yet become a serious competitor to larger and newer sites of international lending and borrowing. On the other hand, Naples, which the Rothschilds found sufficiently important only a century ago to be per-

sonally supervised by one of themselves, is no longer heard of, and Vienna does not now play the important part in such matters that it did at that date. In the last two instances artificial, political, dynastic influences have obviously effected a change that is not counteracted by any financial influence. In the same way, the consolidation of Germany since 1870 has displaced and concentrated elsewhere the importance of the old free cities. On the other hand Stockholm, a very old financial centre, with a national bank coeval with our own, has re-emerged as a centre without artificial stimulus, but the post-war renaissance of the Latin seaboard has not restored to Venice or Lisbon their ancient weight in the manipulation of credit. So that we see that financial speculation is subject to an irregular influence from outside events. It is also independent of the level of domestic credit, and is, on some occasions, actually stimulated by currency troubles and general business uncertainty, including high and rising taxation, as is evidenced by the activity in European stock exchanges during the post-war currency convulsions and debt settlements. A detailed inquiry into the conditions thus created is necessary. Further, the domestic markets have been profoundly influenced by the events of the war.

We have to recollect that side by side with the extensive development, that has tended to fuse the various local speculative markets into one more or less closely related international one, an intensive process has also been at work, changing the nature of the speculative public within the civilised countries in which transferable credit instruments have become generally marketable. This change has been most marked in England, which, from being a country agriculturally self-dependent, with its land divided into small holdings owned or rented, and even to a certain degree held

in common, has come to be the most landless, as regards the greater part of its population, in the world. The causes of this vital change are manifold, and its growth very ancient.

The islands comprising the United Kingdom have from the most ancient days, more than any other part of the habitable globe, been fertilised, both as regards racial stock and ideas, from a distance rather than from their immediate neighbours. This tendency differs only in degree and not in kind from that traceable the whole world over. Nationality — a nineteenth century obsession, whose worst mistakes, perpetrated after the Peace of 1918, have, one hopes, been as brief as they are obvious — has never been provocative of higher culture. National land barriers are impermeable. France has learned as little from Spain as from Germany. The entail of Mediterranean civilisation is not to the neighbouring countries, but to the Netherlands. Ireland derives the mind and body of its present organisation from Southern Europe, not from England. It is therefore natural enough that England, with its high proportion of coast line and low proportion of definitely inland area, has always looked far afield. This has helped to make it a country foremost in speculation. The mercantile habit makes nothing of artificial national boundaries, dictated by local territorial considerations. The fleet and the caravan account for this. The early argosy, in galley or on quadruped, soon exhausted the first market it reached, and must, perforce, go on. Nor was this difficult, for however diverse may be local language and habit, the need of germinating civilisation for exchange evolves of itself a code that supersedes such difficulties. In comparatively early days, therefore, a larger percentage of the people of the British Isles began to have an instinctive conception of a tangible wealth, not expressed in land, but in dealing, or, as we should define it to-day, in purchasing power. Adventitious influences fos-

tered this trend of mind. Remoteness which made the islands less a conglomerate part of the early temporal or spiritual hegemonies of Europe, rendered them also the refuge of all sorts of immigrations. Thus the English towns came to have that floating urban population, divorced from the land, and living not on what they produced themselves, but on payment for various elementary services they rendered the merchant class, founding those categories we now know as transport or general workers, that form as high a proportion of the population as the peasant does in other countries.

Thus the notion of credit, of wealth held in suspense, in exchange, or codified into wages, began early to compete with the rival notion of wealth held as land, and reward as the personally garnered produce of that land. For all the picturesque talk to the contrary, it is probable that the Englishman (as distinguished not merely from the Continental, but even from the Welsh, Irish, and Scots) has for the longest time been the least "free", in the absolute sense, of any civilised people. He became not so much a slave as a social animal. Hence his extraordinary orderliness, his unarmed police, his quality, which is not so much honesty as a disinclination to petty larceny, that the traveller abroad notices and misses even to-day. Upon a national consciousness so prepared, fell the industrial revolution and the creation of a market in credit instruments. And there followed no social revolution to throw the land open to the small cultivator.

The result of these courses was to make the Englishman, contrary to appearance and often to received opinion, increasingly a social animal, and thus to render him an apt subject for the extension of speculation. The mass who in England, instead of cultivating small plots of land, supporting themselves and having a small saleable surplus at the disposal of the local market, were herded into the new

manufacturing towns, had still something to sell, namely, their services. So far from being dehumanised, the pressure inseparable from close congregation and from the handling of machinery or pursuance of routine occupation, rendered them highly self-conscious, and, earliest of all urban industrial populations, they began that series of combinations and agitations which have been called by all sorts of names and described from all points of view, but which can be most shortly and clearly described as speculation. The price of labour is not fixed. It has no permanent ascertainable value. Of all things on earth, it is bound to fluctuate. Dealing in it is just as much a matter of bargaining as in any other commodity, except that the cumbrousness of the market in it renders it more liable to stabilisation into definite rates by custom and to the limitation of these rates by legislation than most markets in material commodities. This, as we shall see, is simply large and rather formal manipulation, and is supported by just the same justification as any other sort of manipulation.

The same causes which made them combine made the English the first of proletariats to abandon the habit of hoarding. It would be interesting to know how far the fact that, over the two centuries that have passed, they were gradually ceasing to own the houses in which they lived had to do with the change, and how much of it may justly be attributed to better education and town-bred alertness. To hide one's savings in a stocking in one's rafters is one thing, to hide it in some one else's rafters quite another. Thus there came to be all sorts of small societies for mutual saving and accumulation of funds, which have acquired such dimensions in England as to have become the object of legislation on the one hand, and to have developed into the largest single body of general stores on the other, under the titles of Friendly Societies and Co-

operative Stores. Not that these were either of them primarily speculative, but that they do provide a considerable body of employable material for the marketing of credit.

Above the ranks of the wage-earners stood the ever-increasing clerical class, including salaried salesmen of all grades and, latterly, saleswomen. These were less apt in combination and accumulation, on account of the inveterate snobbery of the English that bids every man be a gentleman, a title untranslatable into any other language. The corresponding small manufacturer (in which class the farmer must be included) showed itself much less able in grasping the intensely social nature of a country constituted as England grew to be during the nineteenth century. Hence the poor development of organised marketing. Among this class and the liberal professions savings are held in the form of marketable securities, and it is the increase in this class that has been responsible for much recent development. There is no large class of officials, government or local, as in France and the States, and above the professional comes the most stable wealthy class in the world, except perhaps the Dutch merchant class. The aristocracy is an exclusively British survival. In no other country in the world could so much of the hereditary trappings of feudalism have been retained, even by a body retaining in spite of its structure so high a vitality. Peers of the realm are to be found on the boards of all the major British financial institutions. It is part of the prestige of these, which are still larger than, if not so numerous as, the equivalent corporations of America, to be able to address their shareholders annually as "My Lords, Ladies and Gentlemen." The point is important because it emphasises the limit of British financial speculation. No man in these islands can reach the absolute summit of ambition without sacrificing some portion of his wealth to the acquirement of

that landed dignity, a "place" in one of the counties in which the traditional sports are practised, and where he can be received by that circle of which some members, at least, trace the origin of their family — with some difficulty, it may be, and with occasional sinister streaks — to the days when land was the only form of wealth, and was held from the king in respect of military responsibilities. Thus there is still, in the British Isles, a definite goal, which is also a limit. This quite unintentional and informal check secures the distinctive tone of speculation, which elsewhere, notably in America, has no counterpart. It is too early to say that it never will have, to determine the eventual effect of so irrelevant and tacit a limitation.

The analogous process in France did not take place until a later date. In that country, profoundly wedded to its soil, socially remoulded by its revolution, there is neither the aspiration nor the pressure to which we have become accustomed in England. So far as can be judged by personal contact, the peasant who still forms more than a half of the population (instead of a sixth, the nearest comparison possible with England, and that not a very near one) was, in 1914, beginning by no means universally to use the local savings bank. His outlook, sparsely revealed in conversation, was limited by the illusion that his deposit was kept, in the strong room, in the actual notes that he had paid, and he was deeply astonished, if he withdrew any, to receive notes differently numbered apart from those representing the interest due to him. Under the inexorable necessity of those years he also had to be induced, by the most elaborate propaganda, to subscribe to the recurrent loans that the situation demanded, and there are some signs (the figures, of course, being unreliable, especially as to the distribution over the various classes of the population) that the idea of capital appreciation, nego-

tiability, and safety has made some progress in his mind. We get an oblique but illuminating view of the matter from the humour of a comic paper, which presented a caricature of Millet's "Angelus" in which the peasants were represented, not as bowing their heads in silent prayer, but as demanding of one another, "How do our 'Tintos' stand to-day?" — tintos, no doubt, being the comic journalist's notion of a speculative investment. This incident is not, of course, serious documentation of the subject. But comic papers do not treat of such an idea unless it is sufficiently widespread to be comprehensible to the public to which they cater.

The situation in the United States was utterly different. The diffusion of economic ideas is one of those things in which it is hardly an exaggeration to say that the later the start the greater the speed. Much of that racial stock which was most virile in France, Great Britain, and Holland found itself in a new country unhampered by institutions or authority. The new comity of nations — for we must never lose sight of the fact that the United States is a continent, not a country — might be described as born in credit. It began its existence with a National Debt, that millstone without which no true credit system seems to be able to keep its head above water. It had a thousand years of currency experiments in Europe from which to learn. Its untouched resources were able to offer an unparalleled reward to the speculator. Its necessities could only be assured by borrowing. When only half a century old, its first economic crisis was so severe as to have a considerable repercussion on European finance. Thus early it was obliged to take precautions which have only occurred to older administrations at the length of centuries, or which have been deliberately imposed on the Old World by political and other non-commercial considerations. The study of the United States' fiscal, banking and trade statistics show, as

might be expected, unexampled progress. The Great War is credited with having made its fortune, but it may be doubted if that fundamental upheaval did more than hasten a process already inevitable. Its late participation in the conflict did nothing to prevent its being a great reservoir of resources during the major part of the war period, and the one unembarrassed participator to which the exhausted ex-combatants could turn in the onerous task of reconstruction.

It should, however, be noticed that the advance of the United States towards world supremacy in money markets, while very spectacular, was not altogether unaccountable. The cry for reform and retrenchment, and for peace in our time, is the cry of the settled owner, who fears to lose by change, not of the speculator, who has everything to gain. War has always been the speculator's opportunity, because it creates insistent demand, stimulates invention, but above all, because it disturbs accepted values and causes them to fluctuate, a fact which will help us materially in our definition. Even without a European war, and long before that one which is commonly so called, the mentality of the United States was markedly different from that prevailing in the Old World. The American speculator seems never satisfied. His activity is perpetual; the point of satisfaction is much higher with him, if indeed it exists at all. Many of the great names of American finance are borne by men who seem to speculate for speculation's sake. In general, the common outlook in America is not that which envisages a pension or other competence upon which the individual desires to retire and withdraw from business. This factor increases the total sum of perpetual motion, which is a strongly marked characteristic of North America.

Thus speculation arrives at long last as a well-recognised human activity, with a place in the language, organised

machinery of place and communication in market and popular print, and has spread universally, and is finally canonised in the most ultra-modern economic thought, as being, in fact, a necessary part of our civilised life. No less a publicist than Professor J. M. Keynes gives it this last and establishing sanction in "The Economic Consequences of the Peace", that prophetic heresy that has so abundantly justified its utterer.

At this very moment, when speculation has survived the moral taboo and the suspicion of the older type of landed administrator, there is launched against it the most considerable body of criticism that it has ever had to face: and criticism which is all the more serious because it unconsciously aims, not at the abolition of the speculative faculty, as did the anti-Jewish acts, the monopoly legislation, but at converting it from its present aspect of personal gain as the reward of risk and ability, to the public and conglomerate benefit of communities considered as a whole composed of a number of equal human constituents. The genesis of the idea is very old, and certainly can be traced as far back as Plato. Never before, however, except occasionally in very small States, or in very elementary phases of society, has it been so widely canvassed. Elaborated and fomented by the industrial revolution of the eighteenth century and taken over bodily by the United States, along with the mental furniture of the period, all those ideas which are more or less crudely and indiscriminately lumped under Collectivism, Socialism, Communism, have never had anything like the publicity they now enjoy, nor the practical means of testing their validity and efficacy. Nor can the consummation be attributed in any large degree to the excellence of their propaganda, or the suggested accuracy of their prophesied results. The main cause of the prevalence of these ideas is the increasingly

unrestrained vogue of speculation, and the obviousness of greed as a motive in it.

The movement which has been so prominent since the Great War, and which has spread far beyond Europe, is generally spoken of as an attack on capitalism, private ownership, or individual trading. Whether such a description is true or not, the ultimate impact of the vast changes proposed in the economic and social systems of the civilised world must fall most heavily on speculation. Even where such theories have been carried into partial practice, it has never been found possible to divorce the small owner from the land, or to direct effectively the pace and quality of the work of the detached artisan, or even the minor official. On the contrary, it is under individual capitalism and competitive trading that the small holder has been ousted, the handicraftsman obliterated, and the salesman thoroughly disciplined. We see, therefore, that all those beliefs and practices casually and carelessly lumped together as "Socialism" or "Bolshevism" are not effective against small self-supporting capitalism, but only against the larger and volatile accumulations of book wealth or credit, which, as we already know, are self and mutually destructive. Such accumulations never last, cannot be perpetuated, are in their nature transferable, and, in fact, always being transferred, but without affecting credit. They create credit, and the regular or eccentric crises from which credit suffers do but serve to strengthen it. Instead, therefore, of the stupid gibes and incoherent opposition that are usually the only case formulated against Collectivist theory, there is ample scope for real debate as to the possible effect of early, hasty, or complete applications of such theories, whether they would not stifle speculation, decrease credit, and render more difficult than ever the task of maintaining highly civilised urban populations. This we may

take as the reasoning behind Professor Keynes' plea for what he has so well named the *entrepreneur* class.

Wherever land has been widely distributed among a population, there has supervened extreme economic conservatism, a low incidence of credit, and a stagnant state of material civilisation (sanitation, recreation, insurance, public ownership): witness the far East, portions of America, Latin Europe.

The spear point of the attack upon speculation, generally speaking, is that the speculator gets and retains too great a proportion of the annual product. The suggested remedy, the drastic change proposed in the structure of the civilised world, masquerades under all sorts of names — from the “abolition of private property”, which if it means anything means communal toothbrushes, to the reasonable and statesmanlike “public ownership of the means of production of the necessities of life.” But what is really meant is a fairer adjustment or reward, a demand greatly strengthened by the palpable absurdity, to which no thinking man can be oblivious, that the actual producer who handles tools, raw materials, and actually creates that which is consumed from the unconsumable, should so often be in enjoyment of a meaner degree of material civilised satisfaction than his fellow who merely manipulates markets. And if this is the sole function of the speculator, there is little doubt that, necessary as we may find him, the envy generated by the spectacle he provides of idle greed will, sooner or later, bring about convulsions in which all will suffer alike and in which civilisation may well perish. But the actual effect of social legislation is seen to be other than this. It generally means in practice the substitution of a committee for an individual. The committee is still obliged to probe the future, to forestall demand, to take risks of varying prices and incal-

culable drift of fashion, even if it does not actually deal with stocks and shares, as it sometimes does. There is, however, great difficulty in getting a collection of people actuated by public spirit to do as efficiently that which the individual does from the motive of gain. Greed is, after all, only the darker side of aspiration. However much we may hope from democracy, we cannot but be conscious of its shortcomings — more exactly, of its incompleteness. Men do not cease to be individuals because they have been elected to some public position. Only very slowly and erratically do they acquire any wider outlook. Hence the everlasting cry of corruption following, with chequered justice, the career of every public authority that handles money, of every corporate body that has a financial statement. Thus we arrive at a more useful perspective of the speculative faculty than most dictionary definitions can afford. To be quite plain, even to the extent of a thoroughly vulgar analogy, let us see striving humanity in the figure of a donkey, not too great a strain upon our imaginations perhaps. Upon his weary shoulders hang the shafts of material necessity, that everlasting drudgery which we see to be the real curse of Adam when we overcome an ancient moral obliquity of vision. Before his nose dangles the carrot of reward. It is not merely nutritious, satisfying necessity; it is tasty, satisfying the donkey's æsthetic sense. Unless it dangles, he will not pull the barrow. Should he ever get it firmly in his teeth, he will equally surely cease to pull from satiety. He must sniff and gaze, and trot after that ever-receding benefit. His eye gleams, his nostrils twitch — that is his speculative faculty at work. Terrible but true, in these years of post-war disillusionment, we dare not deny that thus, roughly pictured, the system of civilised society works. The aching legs, the back ever exposed to weather and the artificial influence of the stick may complain of the

eyes and nose and mouth that they have too large a share of the reward. But they must remember that it is only by perception, recognition, and absorption that they are maintained, that they eventually reach that state of perpetual rest and resuscitation by the necessities of life that they, or any other donkey's senses, desire.

Can we now frame for ourselves a definition of speculation that shall be apt for the purposes of this attempt to trace the growth of that faculty? We may, after the examination we have made, divest the word of its accreted moral invidiousness. There is nothing cardinally wicked about it. Its excess may become a nuisance, like any other excess. Its absence may be just as inimical to that gradual betterment and equalisation of the human lot which we call Progress. Speculation tends to extinguish itself. When all risks are foreseen, none will exist. It is omnipresent, has been traceable in man since his earliest years; it cannot be eliminated until he is a much finer creature than anything we can yet imagine.

Let us define speculation simply as "Dealing in fluctuating values." No definition can be much shorter. No one can derive unnecessary moral emphasis from these four words. They exclude the mere gamble, which is not "dealing." They include all the immanent relativity of the subject. The cant use of the word always infers the qualification "more speculative" or "less speculative than." They avoid the spurious attempt to invest the word with an absolute meaning.

It is at best a late use of a word which for over two thousand years, in various European tongues, has had other meanings grouped round a detached philosophic mental activity. Nowadays the speculators, in the sense in which they are mentioned in this book, far outnumber the speculators in the sense that the word used to denote. Speculation has

received incalculable stimulus from the artificial means used to strengthen the speculator's chance of success. Nor are such means confined to those which Maunder speaks of as "artifice or chance", by which the prices of securities are made to rise and fall in regular markets such as the Stock Exchange. There is the very old device of restricting output or narrowing ownership of the means of production, which, of great antiquity, was so prevalent by the time of Elizabeth that legislation was formulated to check it — in its commonest form known as Monopoly. From this descends the supposedly modern practice, credited to the agile brains of inhabitants of the United States. There was, however, for centuries before the corner became a recognised means of raising the price to the consumer, an entirely hidden and unconscious form of monopoly being created by very ancient legislation, that only attracted any considerable public attention when twentieth-century budgets were devised to tap the form of profit known as unearned increment, that had accrued during the running of century-old leases of land, gradually absorbed into our gigantic modern urban areas. This is worthy of notice, because, as a rule, the ownership of land, except in such sites, has not provided a fruitful field for speculation. On the contrary, the dispersal of land into small parcels under peasant, or analogous proprietorship, renders speculation difficult.

Another ostensibly blameless but very real form of monopoly is to be found, equally unconsciously created, by the very nature of certain modern activities. Who shall check, who will criticise the monopoly enjoyed by great financial institutions? Who desires to see a rapid and widespread growth of banks and insurance offices? It is even doubtful if monopoly was any great factor in that most striking and typical twentieth-century development, the rage for amal-

gamation, which has placed the British Isles completely in the hands of less than a dozen banks, a score of insurance offices, and an even smaller number of transport companies. The tendency, directed mainly and certainly originated by the desire for security and the importance of reducing working costs, has by no means stopped there. It is now visible in industrial concerns of every description. It has its critics, but no case can be founded on the accusation of raising the price against the consumer, if such a word can be used to denote the banking and insurance public, and, beyond that, the whole civilised world that washes its hands with soap, reads books, or goes to places of entertainment. Contrary to the ancient characteristics of monopoly, the defence of the modern vaguely so-called Trust has been in most cases that it has actually reduced the price of the article sold or the service rendered. The more sinister feature of the great money monopolies, whose growth has been so accelerated by the war, is the completeness of the control which they are able to exercise. It is as impossible as it is undesirable for any individual to start a new bank, insurance company, railway, or international utility company. The days are over of the great pioneers, so-called captains of industry, those fortunate individuals who were made so very conspicuous by the age in which they lived — an age which recorded only the successes of individuals and decently forgot the innumerable failures that alone made possible the few successful careers.

Behold us, then, confronted with a new monopoly, a monopoly which, on the whole, promises considerable material convenience so long, and only so long, as it is harnessed to the daily needs of town populations. It is, indeed, more vital than is always realised for such monopolies to so justify themselves. Apart from the sharp accentuation of the greed motive which they supply, there always underlies their

existence, the ultimate difficulty that they share with their ostensible opposite, the body of quasi-political opinion colloquially labelled "Socialist." Neither of these opposing systems, which, in their higher development become suspiciously alike in appearance, have succeeded in eliminating the individual. There may be, at any moment and without much warning, one of those somersaults of public feeling that are fatal to seemingly all-powerful commercial or financial organisations that depend on a very high state of civilisation, perfect social order, and the delicate poise of a system of credit. Such bookkeeping edifices as supply the daily needs of Western Europe and Northern America are the most vulnerable things in the world. They exist absolutely on sufferance. The only really independent condition of man is that expressed in the historic policy of "Three acres and a cow." It was discovered, in 1918, how easy it was for the most confirmed town dwellers to produce foodstuffs when made to do so. The extreme precariousness of monopoly as a means to the stimulation of the most concentrated forms of speculation must therefore never be lost sight of.

The idea of monopoly has had also a curious reflex action upon the growing self-consciousness of that large section of civilised populations that we denote by the word Labour. The craft guilds of medieval times were an early expression of this feeling, but the low relative importance of industry at the date at which they flourished, and their subsequent demise or conversion, left the matter dormant for centuries. With the industrial era, however, combination and agitation soon became apparent, and have won a certain place in legislation, obtained recognition as definite economic and political factors to be reckoned with. That which is included roughly in the title Trades-Unionism is simply a variation of the monopoly idea. The price at which labour can be hired is just

as much a function of the general market of human activity as the price at which boxes of matches change hands. The attempt to restrict output and gradually increase reward are speculative activities. Most characteristic of all is that particular method of decreasing individual effort when the money reward of it cannot be otherwise heightened, known — and it is suggestive that the name is in the Scottish dialect of English — as “Ca’ canny.” The spectacle of large monopolistic speculators fulminating against this particular form of speculation is not only amusing, as evidence of a certain plaintiveness that the daunting risks and brilliant prospects of speculation sometimes beget, but it is interesting as being almost the last attempt to set up a moral limitation to speculation.

Speculation cannot from any point of view be considered as bounded by privilege. We shall be able to trace in detail its immense antiquity; every man above the limit of slavery is free to indulge in it. And as the causes of fluctuations in value are frequently extremely remote and quite beyond the comprehension and the prediction, not to say the control, of the individual, it is but natural that he will increasingly attempt to influence them for his own advantage. The spread of civilisation and the opening up of communication throughout the world have done nothing to remedy this. Man used to be subject to certain sudden disasters, war and earthquake, plague and famine. These have had deep influence on the displacement of whole trades, from the siege of Troy, whatever exactly the event that gave rise to that body of legend may have been, through the fall of Constantinople, the variations of English and Flemish woollen manufacture, the rise and fall of colonial Spain, right down to the commercial policy of Napoleon, the attack of phylloxera on the ancient vine cultivation of Southern Europe, the convulsions

of 1918 and their resultant political and social upheaval. By one means or another such causes of fluctuation are being lessened or eliminated. There is the steady drift of public opinion, led by the largest groups of professional speculators, against allowing the possibility of European war. Even earthquake can be in some degree lessened in its economic effect by the completeness of modern communication, which achieves the fluid transferability of credit. Plague among humans, as affecting labour and margin of saving, or among marketable animals, and disease in vegetable products is the subject of ceaseless research, that tends to become more efficient every year. But against all this, the increasing dependence of man for the necessities of life upon remote places and peoples, makes him the vassal of large numbers of intermediaries, and brings into consideration all kinds of unsuspected factors, such as incidence of taxation, alterations of standards of life in remote parts of the earth, and last but not least, the slow but sure filling up of the great waste spaces that used to be vacant of everything but wind and sun, and could be left clean out of any calculation whatever. And this is absolutely necessary to any sort of speculative activity, for, according to our definition, there must be fluctuation for speculation to exist. The tendency is, therefore, that fluctuation will be increasingly caused by artificial means, and the speculator becomes more and more a manipulator, and that what Maunder saw as the "rise and fall of stocks by artifice or chance" in the small world at the back of the Royal Exchanges will become more of an international activity.

There is a further aspect of the effect of monopoly which we must notice. It is the oldest and probably the strongest implement in market manipulation. And it is the means by which, more than any other, speculation tends to cancel out



THE FIRST ROYAL EXCHANGE, LONDON, AT WHICH
EARLY STOCKJOBBER MET

and disappear. Monopoly may be defeated by its own success as much as by unsuccess.

The establishment of a complete monopoly is difficult to camouflage. Sooner or later it becomes the subject of remark, from a variety of motives, not the least of which is sheer curiosity. Here is an individual (or more frequently a trading corporation) that has done it! Done what? Why, competed to that predestined end of all competition, which is to eliminate all competitors except one.

Such is the fate of another of our Victorian illusions. The super-competitor made his appearance very early as the chartered company type of colonial enterprise that so many of our rulers have favoured.

As in all purely material effort, it has been discovered that the lower type always drives out the higher. The explorer who sailed in Hudson's Bay or round the Cape has been followed by a very different person, who had a notion worth two of that and was content to do the "management" while others risked their lives. Thus arose the type whose self-elected title is "agent" or "financier", whose function it is to exploit the new idea, the recently opened possibility. The notion of free and undisturbed competition — which, in the imagination of the men of fifty years ago, was a sufficient check upon price and cost, the regulator of mismanagement or profiteering — does not apply to the twentieth century, with its enormous costs and equally enormous ambition, as it did to the small circle of staid merchants in tall hats, among whom alone it ever really existed. The modern speculator desires to get in, get on, and get out.

This process is slightly varied in America, where the "getting on" is so limitless, the appetite for money and power so insatiable. It is so rare to find the successful American speculator retired, settled in the country, content and no

longer interested in rapid and ruthless acquisition. Possibly it is not safe for him to do so; he needs for ever to be on the defensive, on account of the methods he has used. There is also the consideration that there is no "county" class into which he can laboriously climb and there precariously maintain himself. In England the prize is definite. To exist among horses and dogs, be photographed in the right company and nodded to by the magistracy, is the definite goal of the English profiteer. It excludes the canonisation of success that used to be dispensed by the Court. It is at least concrete and visible. Something of the same sort is visible in France, where the ancient châteaux are so largely in the possession of the ex-members of the legal profession who have graduated in political corruption. In Germany and Italy the type is less distinct on account of various local causes. But the same ultimate effect is produced. The purchaser of hall or château, the Big Man of Wall Street or the Middle West, cannot altogether hide his light under a bushel. Various forms of regulation followed, from the relatively ancient one of permissive chartering, through many efforts at State monopoly, to the most modern phase of highly technical government interference, such as the attitude of the British Treasury to the banking monopoly. The exact legal category into which these varying forms fall is not at the moment important to us. The point is that here speculation ends, in the sense in which we use the word. But does it? It is true that there is a tendency to great stabilisation. Rates of interest or premium become increasingly standardised among our great financial houses, the type of investment for funds is stereotyped. If the names at the head of the balance sheets of the three greatest banks in Great Britain were obliterated, it would take a very intimate knowledge to know which is which. Capital and reserve are at an identical

figure, the items follow one another as if decreed by Act of Parliament. There is slightly more variety in America, but an equally strong drift towards a sameness that becomes more apparent with every amalgamation.

It remains to be seen if Germany and France resist this encroaching uniformity, when they are free from their present currency vexations. Outside finance, in the general industrial world, not only the standardisation of the article made and its price to the public proceeds apace, with the necessary corollary of the almost complete loss of any freedom of choice to the consumer, but the financing of such undertakings begins to bear a striking similarity. At a time at which the number of new issues offered to the investing public is larger than ever before, there is little or no variety in the lines offered — five per cent. to as much as seven per cent. on debentures, seven and one half and rarely higher on preferred shares under that or similar name, leaves only a minor part of the capital in variably rated ordinary or deferred category. Here, at least, America has the advantage of recent, rapid and wider development, and the introduction of the share of no par value leaves something to the imagination. It almost looks as if, in the far-reaching circle of human activity, trade were returning to its prime motive, necessity. Fluctuation is disappearing. For a large portion of our urban populations, the bargain is non-existent. They can pay a set price for an article of known size, quality, and durability or utility, or they can go without. The marketing of necessities and common desirabilities by packet instead of by weight has been greatly responsible for this. In finance much the same is true of the investor. He has before him roughly half a dozen markets, in some, such as the gilt-edged, a perfect certainty as to price and return. The five per cent. War Loan, the biggest issue of stock ever made, varies exactly

with the distribution of its fixed interest. In industrials he has three categories of stock or share, increasingly the same in denomination and value. It is only in the smaller markets that any true speculation can take place.

It follows, therefore, that, apart from the professional operator, the average inhabitant of the modern civilised State has little more difficulty in deciding how he will expend his energy than had his immemorial ancestor, who knew exactly, by the degree of hunger he felt, how much energy he would put into the making of a flint arrowhead. And with the gradual filling up of the world the stabilisation and standardisation seem likely to increase. Filling up is a misleading term. There are portions of the British Isles, full as they are considered to be, "over-populated" as they are described as being, where the population is still less than one per square mile, and most parts of these islands are relatively accessible and inhabitable. On paper there are many places in which the population does not appear dense. But economic density, the filling up of desirable sites, is sufficient to remove what has been one of the great sources of potential speculation. Just as this factor heads off speculation, social levelling up does so in another direction. The un-selfconscious peasant and workman class, with its distinctive dress and standards, is rapidly being transformed. The rise in the condition of the masses strikes at the stream of rising men who made the nineteenth century's history, in most European and all English-speaking countries. As the general level rises, it becomes increasingly difficult for individuals to be very rich or powerful. Our millionaires have less and shorter security of tenure than the most obscure landed gentleman of a century ago, perhaps a fortunate circumstance.

The spirit of speculation, however, is not dead, though transmogrified. Amid the thousands of employes of great

trustified industries, there still exists a certain emulation that can only find vent in the struggle for the top places. Week by week, and year by year, salaries are being levelled, wages hedged by minimums which always tend to become maximums, pension and insurance funds discount the future, seduce incentive, and qualify reward, while the very nature of the sort of work that so many men spend their lives at, deprives them of the power of greatly making or marring their earthly prospects. It follows that there is a strong tendency to get, if possible, government or government-controlled employment. And among the tens of thousands so employed there remains only the last stage of manipulation by which they can enhance the value of that which they have to sell — namely, their services. They became stunt merchants. This movement was greatly accelerated by the war. It was then discovered that to go on fighting and probably get killed or injured was a foolish proceeding. The thing was to obtain one of those various jobs that grew upon the old hide-bound military staffs, as the ivy grows upon the oak, as it was discovered that war, like anything else in the twentieth century, was a commercial proposition; and thence to direct the efforts of the temeritous or blood thirsty, and latterly the conscripted. The lesson was not lost upon the minds of those who returned to civilian avocations of the official or trust description. To work was to remain poor and obscure. But to devise some scheme that could be placed before one's comptroller, general manager, department or board of directors was to become one of the executive, as distinguished from the mere routine employes. This accounts for the alleged success of house unions, staff associations, and kindred bogus associations founded by employers desiring cheap labour, euphemistically called "Industrial Peace." The idea was well expressed by one of the eminent authorities

of the English banking world, who informed a section of the sixty thousand bank clerks that form the staffs of the great English banks that they could all become general managers. Such statements should not be attributed to faulty arithmetic (there being perhaps twenty posts of general manager divisible among the clerks) but to an innocent desire to encourage emulation rather than unity among the employes. Such a field for speculation is, however, very limited in England.

In France, as has been already pointed out, politics have long provided a better means of advancement than industry, and the slightly larger and more rigid organisation of a republic provides more scope. In Germany and other European countries the organisation is younger and has suffered greater recent convulsions, which have tended to produce a special type of speculation that must be separately noticed.

In the United States alone does it remain true that the majority of the inhabitants can choose how to dispose of their energy and skill, or of the margin saved of the products of these. Not only is the possibility of employment general, but it is readily interchangeable. The standard of life is high and rising, so that the large population has none of the economic inertia characteristic of the large populations of Asia. Citizens of the great republic enjoy, in fact, that individual choice which used to be considered peculiar to England. They enjoy it in far greater variety of facility and privilege than ever Victorian Englishmen did. The only limit that exists is the ruthlessness natural to a life in which the prizes are so high, the struggle for them so severe.

In the United States has been created the arch-type of speculator who will suffer neither scruples nor obstacles in the attainment of monopoly. Yet so broad is the field there, so

many the competitors, that no financial institution has reached the monopoly of those to be found in England or France. The situation in North America, in fact, must go beyond the scope of this history. In Europe, economics in general, finance in particular, speculation especially, are ossifying into certain types from which it is unlikely they will depart. In North America all predictions have been set at naught, all rules overrun. The spell of prosperity which succeeded the post-war slump has had variations and breaks, but no definite downward curve is, at the time of writing, visible. The economic filling up is proceeding apace, the necessity for importing is increasing, but the possibilities of the Continent well outreach the view of any living person. It is only with regard to the Old World, therefore, that this history can in any sense be complete.

Speculation can only be envisaged as a faculty of individual man. There is a sense in which public bodies speculate that touches the edge of our definition. When a municipality performs services usually and heretofore conducted by individuals or trading companies, it is dealing in fluctuating values. But the element of personal gain is lacking, except as it lurks in the invidious sense of some form of corruption among councillors or employes. The same is true of nationalised services. The fact is that when the profit to be made is in the form of the common good of a community the value is more or less certain and known. The general desirability of anything that can be owned by many in common tends to an average. Necessity has resumed its sway. For it was in the departure from immediate necessity that speculation had its origin. In this speculation shows itself to be a phase of the great curve of Human Development. Just as the tribe gave way to the family, and the family at the moment is abrogating all its rights in favour of the indi-

vidual, so the individual is reabsorbed into the great entity, culminating in the large, warless society that actually exists in North America and is proposed in Europe. Already in Russia and Italy personal freedom is a thing of the past. With it has perished speculation. Thus our inquiry closes.

PART II

THE MERCANTILE MIND

LIKE Rome, the modern international market that lies open to financial speculation was not built in a day. There is nothing more startling than the gradual and continual acceleration of the rate at which material human progress moves. The antiquity of man is now tentatively pushed back to a hundred thousand years. The production by him, as at Grimes Graves, of surplus implements, which had, therefore, instead of an immediate, a future indeterminate value, and thus set germinating his speculative faculty, is dated about ten thousand years ago. It is true that the interval between these immense spaces of time was filled with physical alterations in his conditions with which our imaginations struggle in vain. But at their worst these alternations of temperature, and the accumulation and dispersal of great quantities of moisture which they contained and which we know as the glacier ages, did not interrupt the continuity of the human race, so that the increased pace of progress of the last ten thousand years is evident. To complete the comparison, we have only to consider the rate of change during the last ten years, since the World Peace of 1919.

There is another aspect of the matter. Barter, the earliest form of exchange, began long enough before any record, and presumably evolved directly man was conscious of the possibilities of his surplus production. It is still with us. As late as 1927, an acute observer, while staying on the west coast

of Ireland, found the inhabitants bartering gulls' feathers for mattresses, and could not induce them to take coin. From this we gain some idea of the unevenness of the advance. Barter began to be superseded with the gradual recognition and diffusion of the precious metals. Yet the presence of fourteenth-century tithe barns shows at once how recent and how considerable was the system of payment in kind, which is only a special form of barter, at a date at which not merely precious metals but national coinage was already ancient and commonly in use. And, as we have seen, barter is not extinct yet.

After Grimes Graves, one visible point in the misty, dateless, recordless, wave-like rhythm of the early centuries, the next that we can fix upon, a mere floating shape upon the stream of time, is the presence of gold among the traces left of that conjectural Cretan civilisation. No other word can fairly be used except by the small body of scholars and investigators who are experts in the subject. There existed, such will tell us, in the basin of the Eastern Mediterranean, during the Bronze Age (2800 B.C. to 1200 B.C.), a people whose race is unknown but certainly not now represented in that part of the world, whose language, although quantities of inscribed stones are extant, cannot be deciphered, and whose power and glory perished with a dramatic suddenness and completeness, for reasons which are still the subject of guesswork. They are important to us for many reasons. They are (just) European and lie in the direct succession of the economic systems, anticipatory of financial speculation, as no Asiatic people does. They were, it is thought, primarily a trading community. They were seafaring, international in their activities, and they possessed and handled gold. But most of all, they seem to have lived on and for trade, and not under a highly centralised theocracy in a self-supporting

agricultural community, as did, for instance, the Jews. Their country seems to have been the sea and its coasts, their means transfer and toll. The study of their history is complicated by two factors. They became the subject of legends, which, preserved in what is called "classical" literature, still share with Christianity the background of the consciousness of Western Europe. On the other hand, the actual traces of them have only been examined during the last fifty years, and may yet be indefinitely extended. They are called, for want of a better name, "Cretan", because the centre of their civilisation seems to have been at Knossos near Candia in Crete. Their best-known settlements are Troy, Tiryns, Mycenæ; but a distinctive type of architecture, said to be theirs, can be seen at other ancient sites on the coasts of the Ægean and the Gulf of Corinth. The late Doctor Walter Leaf said of one of these strongholds:

"I regard them as the combination of fort, palace, and warehouse . . . these three characteristics are well marked — the very strong walls, the palace in the middle occupying nearly the whole of the ground, with only room for a comparatively small body of retainers, and large treasure-chambers. There is no reason to suppose that there ever was any town of Troy outside those walls; it is practically a feudal castle set up there to take toll — just as Mycenæ was — of the merchants who congregated at the foot . . . about June or July a huge bazaar was set up probably on the ground just under the castle, to which nations used to come from every side to barter their goods. . . . In the Iliad there is a very interesting passage, a catalogue of the Trojans and their allies."

There is. It shows the allies of Troy to be the peoples living along the trade routes of Asia Minor. In other words, the Glory that was Greece was the same Glory that we pursue to-day, the endless effort to live a little better than our fathers.

Thus under so much fabulous romance that has for centuries lighted the imagination of Western Europe, we see the permanent inevitable economic basis. Helen may have been the most beautiful of women, Agamemnon may have been King of Men, but the things which they thought about then were the things we think about to-day, provision for immediate needs, and a little further if possible. Age has thrown a kindly glamour over the wars they waged with the object of making certain that they would not be hungry or surprised by enemies, and beyond that, to exercise the rudimentary taste that chose to make those cups found at Mycenæ of gold, and those sword hilts. One thing is clear: all the strongholds of this people stood at points by which the trade routes of that day had to pass. Besides Troy, Mycenæ guarded the pass that led from the Argive harbours to the Gulf of Corinth, Tiryns commanded the seashore (as did Argos?), Thebes, the roads from three seas. According to Professor Gilbert Murray, the mixture of races was infinite, the local conditions all important. There was nothing corresponding to the strong central government to which we are now accustomed, and always think of as directing and consolidating a nation. There was none of the far-reaching, brutal but effective tyranny of the great nations of Asia and Egypt over large bodies of cultivators and craftsmen. But the Cretans, whoever they were, "depended for their greatness entirely upon commerce, and during the period of persistent barbarian invasion this commerce was destroyed." "Fewer and fewer caravans of laden mules plodded up the stone-ways of the Argive mountains. Fewer and fewer fleets of trading boats came to pay toll at the harbours of Southern Crete."

For one thing is certain, amid so much myth and legend — the Cretan cities perished, either more or less as described in the accounts of the sieges of Troy or Thebes, or by some

other means. The fact seems to have been connected with the great race migrations of the time. The people who succeeded were less and less civilised. The Cretans knew how to syphon water up a hill. Their sanitary arrangements were better than those of modern Athens. They had white nephrite from China and lapis lazuli from mid-Asia. All that considerable advance on any previous civilisation vanished, so completely that it has only been excavated, to any extent, since 1900 A.D. Who succeeded them no one knows, but the successors were rude, wild, insecure. Inland were the great centralised theocracies or tyrannies, in the great river-plains of Asia or the Nile. The contributions these make to our subject are the first attempt to keep accounts, on baked bricks, and the evolution of a numerical system, and finally, the establishment of a system of stamping small pieces of precious metal with the impress of some central authority, from which practice coinage evolved. More useful to us is all that body of legends which vary from folklore down to recognisable geographical names of places. This body of myth and memory, gathered and written down perhaps after a thousand years, comes to us as the story of the Argonauts, the crew of the ship *Argo*, who set out under a Thessalian called Jason to fetch the Golden Fleece. The interesting point to us is the break-away from the Eastern Mediterranean. The command of the sea, such as it may have been, passed to various people, among whom the Phœnicians have most importance for us. But Jason, his ship *Argo*, and his companions' adventures were not Phœnician any more than they were Cretan. They did not go westward along the Mediterranean to found Carthage and build Cadiz, and perhaps trade in Cornwall. They went northeast across what we know as the Black Sea to Colchis, at the mouth of the Phasis. But the reason given for their

going at all is the most vital to us. Putting aside the reasons invented to square with mythology, or dictated by the personal beliefs and preferences of the editors of the records that have come down to us, the one thing that is common to all the various stories is the adjective Golden. It is only lately that the conclusion has been arrived at that this is neither legendary nor mythical. Gold did come that way. The Fleece presents more difficulty. It has been explained in all sorts of ways, as being the golden rain cloud so necessary to Grecian lands (Athens is still rainless for months at a stretch), the forgiveness of sins (sin being supposed to have caused rainlessness. Compare extant prayers for rain!), the means by which the gold was collected as it was carried down the mountain torrents. One explanation that springs ready-made to the traveller in the Balkan Peninsula to-day is provided by the heavy golden-coloured coats of the mountain sheep. If these strike the twentieth-century spectator, how did they strike the men of three thousand years ago?

A further complication lies in the varying accounts of the return of the Argonauts. These are severally given as being by the Phasis and Cyrus rivers to the Caspian, and by the Volga and Don to the Baltic, and thus, touching what may have been Ireland, to the straits of Gibraltar. Other accounts make them follow the Danube, then down to the Adriatic, up the Po, and down the Rhone; others by the Red Sea. Some include the (necessary) carrying of the ship from one river to another. It is now thought that we have here a record of the early trade routes, along any of which the adventurers may have come in contact with those other land Argonauts, the immemorial caravans, which are their land equivalent.

That the whole body of legend does rest upon some modicum of fact is evidenced by its widespread and persist-

ent nature. Centuries later, Argonautic names were to be found as far as the coast of Spain. Roman travellers were shown the alleged anchor of the *Argo* at Phasis, or the hull of the (?) original boat at Corinth. One thing the Argonauts certainly had — the adventurousness that makes them the prototype of all subsequent voyagers, and is reproduced in the great exploring traders of the Renaissance, who laid the foundation on which the great overseas corporations of Italy and Spain, Holland, France, and England were subsequently built. And whether they brought back gold, or amber, or merely increased prosperity, the gold got down to the cradle of European civilisation in the Mediterranean, and, at first possibly a curiosity, then an ornament, became eventually a means of transfer of value, and thus laid another foundation of speculation as we know it.

The standardisation of conveniently shaped pieces of the precious metals, and the stamping of them by some authority into coin, is the next landmark in the history of speculation. The caravan and the Argonaut might go far, and carry with them objects that opened a new world to the limited mind of the despot of the great cities in the river valley, or the chieftain in his hold. But there remained the business of barter, or, at best, of weighing out of one commodity against the other. Even great Egypt got no further.

To Lydia belongs the credit of a royal if not a national coinage. But had it remained with any Asiatic people, one feels that its use might have gone no farther than it has with them to-day. There clings to the oriental mind the notion of the absolute nature of wealth. Even to-day quantities of coin disappear, melted down, hoarded, lost sight of, in Eastern countries. Coupled with this runs the system of small money-lending, village banking, of which we get so vivid a view in the Bible. The pearl of great price shows one aspect

of the mentality, the parable of the talents another. A mixture of ostentation with greedy secrecy is very difficult for us to follow or sympathise with. More familiar is the rack-renting procedure of the unjust steward, and the unenviable reputation of the tax-gatherer, if modified in method, is as implacable as ever. The essential Jew of our day had not then crystallised into the distinctive figure we know. His divorce from the land was not complete, and his remarkable mental capacity had not been sharpened by persecution or specialised by necessity. He was not the founder of our modern wealth, of which he has become the most remarkable operator. All over the East there was then spreading what has survived — the network of obscure little men in bazaars, concealing gold and silver, and issuing to those who are in their confidence little dockets that are not dealt in by the European banks, that have so long surpassed them in size and service. Credit exists, but fails to get itself mobilised in sufficiently large or liquid masses to act as a basis of financial speculation, as we understand the term.

The Athens to which we owe so much does not derive the extraordinary importance that we attach to it from any trading or financial preëminence. Situated amid bare, unfertile land, it had no rich river valley to enable it to accumulate a great surplus of wealth. It was dependent upon the sea. Its audacious experiment in civilisation was built upon tribute paid to it in respect of leadership. During its brief heyday of two generations it did much that does not concern our subject. It perished for all practical purposes by exhaustion in war. The picture drawn of this process by Professor Gilbert Murray, however, in his "Aristophanes and the War Party", showing vividly the influence of war on speculation, in a community astoundingly modern in outlook, throws a strong light on the stimulus given to speculation by such

an event. Fluctuations become rapid and excessive. Consumption is redoubled, production hampered. The cause of the war is said to have been a protective tariff penalising the goods from a neighbouring State. This at once acts unfavourably on the supply, decreasing imports, and if the articles are then homemade it must be at greater cost, or under some other unfavourable condition, for had the goods not been more easily produced elsewhere they would never have become imports. Then there is the strain upon manpower, and transport facilities; but most significant of all is shown the progressive deterioration of human nature. The stimulus has been too sudden and too strong. Men were not fit then, any more than they are to-day, to have such arbitrary powers, to be tempted by such sudden opportunities for wealth; the contribution of Greece to speculation was thus considerable. At that date it was greater than the contribution of any other people. Its democratic atmosphere was the first free market in human brains. It could hardly do otherwise than fail.

The thing which next happened to Europe, and which perhaps more than any other one event determined the present relative position of the two continents, Europe and Asia, is illustrated by the gap between the Old Testament and the New. In the former we have all the elements of the finance of the ancient world — Joseph as financial comptroller of Egypt, Ahab offering to exchange land with Naboth, memories of great and magnificent buildings, palaces, and temples, with precious metals in profusion and even in store. But everything was local and individual and personal. We turn to the New Testament, and the material world is organised and administered, an efficient civil service is backed up by military force if necessary. There is a regular currency: the price of sparrows is quoted, the superscription upon the coin

is that of Cæsar, and variations in value are dealt with at such places of public resort as the temple. The mode of giving alms for the relief of the poor is by means of money, not by giving in kind, and to this object it is suggested that the value of the ointment should have been devoted. Finally, the reward of Judas is in money. One is led to the belief that, with all its splendour, the long rule of Rome over the world was a period of stabilisation rather than of origination. Perhaps it is inevitable that good administration should tend to stifle ideas as dangerous, unruly things. And from the height of the civilisation of Athens, there was a progressive deterioration in the human spirit. Rome could distribute and maintain routes and markets. After her, nothing. The revival of Asia and its incursion into Europe, illumined by such faint signs of caravans still in motion as the Arab dinar, which was discovered with the name of the semi-barbarous Offa marked upon it, provide us with no material for study. Although they had craftsmen, architects as well as soldiers, there was always lacking in the Mohammedan nations the power to create and preserve in any fluid form a source of credit.

The next distinct landmark which follows after those of the creation of a surplus of commodities, the establishment of markets and routes for barter, and the evolution of coin, to ensure transferability, is setting up in medieval Italy of definite credit institutions. It is vaguely said that the first bankers and insurance brokers of the Italian towns "learned their trade from the East." If so, they greatly improved on it. Probably workers in the precious metals developed the habit of holding objects for their clients; certainly any sacred place, whether it be the sacred way of Delphi or the Temple of Solomon, came to be a depot of valuables, and evolved some rudimentary system of exchange indistinguish-

able from barter. But in Venice, about 1300 A.D., legislation was necessary to regulate the transfer of funds from one depositor in the private banks of that date to another, by means of a document analogous to a deposit receipt. In the fifteenth century these were being used "like coin", while a form of marine insurance policy, in an advanced state of development, is preserved from the year 1523. Thus the dawn of credit synchronises with the general renaissance of civilisation, as we might expect.

It is noteworthy that it arose in the free cities, not in the seat of the executive power of those days, the Empire. It was, as ever, connected with the ports rather than the inland trade routes, though See mentions credit instruments circulating at the great inland fairs. Venice and Genoa became possessed of central or national banks, founded on State-borrowing for public purposes. In the case of the latter town, the date of establishment is given as 1148. It was literally an incorporation of the public creditors.

Curiously enough, the influence upon financial speculation which has left the strongest superficial mark is not that of any of the great centres of transfer, but of an inland town that lay in no great international route of trade. The word Florin, the division of the English pound into twenty parts, and these into twelve, derives from Florence. Without any of the natural advantages that explain the prosperity of London and Amsterdam and Venice, and with its one natural safeguard — inaccessibility to the beggars of the sea — more than counterbalanced by enough domestic or immediate trouble, Florence seems to have possessed for three centuries a higher proportion of sheer brains per head of her population than any human agglomeration of the size. And the high average level of intelligence was not slow to make itself a means of expression. Hence the extraordinary experiments in

civil liberty of which it was the centre. Never, in so small a space, can there have been so many people apt at a bargain. It possessed its own public debt, quoted in shares, which were publicly dealt in as they fluctuated, and in 1371 a law was made instituting a fee on transfer. Here, then, we have a very early immature stock exchange in operation. It would be too much to say that an institution which arose in eighteenth-century England was copied from it, for no exact reproduction of local conditions was possible, and at the same date the Hansa merchants were not only unused to, but positively forbidden to carry out credit transactions. The fact remains that from Florence spread not so much the woollen trade, which is probably indigenous to any country in the temperate zone, but immense technical improvements in dressing and dyeing woollen stuffs. The early guilds of Florence were those of the woollen workers, the money-changers, and the druggists. It is not difficult to imagine how these interacted to the mutual advantage of all. Then the isolated town, a small democracy, not dependent on manorial forms of government, looked far beyond its walls, as all such communities do. Thus we find Florentines in London, Paris (under the name of Lombards, indiscriminately used) exercising a determining influence on the local uneducated woollen trade, and setting up better standards of value, by their coinage, than those previously existing. They suffered from a mutation just now so ominously known. The English, Flemish, and others learned the trade secrets, and protected their home industries from the Florentines, from whom they had learned. But with a versatility that so marked the Tuscan city, the members of the threatened woollen guild seized on the newly discovered properties of the silkworm, that had been brought from Persia to Constantinople, where they had trade relations. This enabled them

to maintain for another century their mercantile supremacy, on which their very early and comparatively perfect economic life was based. Thus, at the very time at which Plantagenet kings were trying to organise the infant industries of England, and discovering the presence of and the necessity for legislating for a new sort of trader, a broker or middle man, buying and selling what he did not make himself and restrained by no guild rule, there was in London a considerable Italian money-changing community from which the broker may have learned procedure. This is as near as we can get to establishing the succession of London in the history of Stock Exchange operations. How the brokers adjusted themselves to the needs of the late seventeenth century we shall see later.

Of all the inland banking centres that are exceptions that prove the rule of maritime stimulation of speculation, by far the most remarkable is the town of Frankfort. To the north of it, the great towns of the Hansa split and dwindled. South and east of it, the old centres of exchange, Augsburg, Ulm, and even the neighbouring Nuremburg, lost their importance. Cologne remained in a backwater for centuries, and Aix seems to have permanently forfeited its place among the great cities of Western Europe. Frankfort has survived two empires and still holds a considerable place, sufficient to be recognised by the centralising legislation of 1875 as the site of a Bank of Issue, a high distinction in the scheme of pre-war German economic life.

This is remarkable, for on all sides, cities as large, and ostensibly enjoying equal physical advantages, have become mere curiosities to the tourist or the student. And for the most diverse reasons some have been naturally superseded by the diversion of trade routes — some have been the victims of tariff and commercial rivalry, some victims of events totally

disconnected from any commercial consideration — warfare or physical disaster. We must also observe the long-continued prosperity of Leipzig and the recent revival of Lyons, both inland financial centres. The conclusion to which the financial importance of such places leads us is rather that, in such matter, habit is all-important. Once the natives of a certain district have acquired certain skill — industrial or financial — the practice of it may disappear for years and then reappear upon favourable opportunity.

Public banking did not begin in Venice until 1587, as a result of private banking failures, and as this institution was purely of the Safe Deposit type, paying out or transferring exactly what had been deposited, at a charge, a further bank was created for general business, and made loans to the Government of the Republic. It is the former institution, however, the bank of the Rialto, which presumably may have been known by name to Shakespeare. Certainly the plot of the "Merchant of Venice" gives a graphic enough picture of the transaction of the period. The Florentine ducat was the denominator, and seems to have had a wide circulation, for it was equally in use in the Hansa towns, notably Bruges, and Lubeck, where it was copied. For the growth of the Mediterranean trade was finding its counterpart on the shores of the North Sea and Baltic, and a varying confederation of towns traded, under different privileges, with London, Bergen, and Novgorod as their remotest points.

The comparison of the Northern and Southern basins in which speculation thus began to manifest itself is as interesting as it is instructive. The Genoa Bank possessed great political as well as commercial power, and was part bank, part forerunner of the chartered companies, that we shall presently notice. At Venice, on the other hand, a less centralised system seems to have arisen as a result of the city's

unique situation. It faced directly what came to be, not only foreign, but non-European civilisation. Though the town was never dominated by its bank as Genoa was, yet the Venetian influence is more visible to-day. It is in evidence in the architecture of the ports of what used to be its colonies — Ragusa in Dalmatia, and Candia in Crete. Both towns made great advances towards the negotiation of credit instruments. The Northern, more numerous but more dispersed confederacy called the Hansa, had one thing in common with the Mediterranean towns, an endless struggle against open or veiled piracy. The commodities that gave these a basis for the great volume of their trade were beer and fish — a curious result of the Catholicism of Europe. Through their hands, also, passed the fur that became so distinctive a part of the burgher dress. Confronted with no Mohammedan power, they had to fear the jealousy of Scandinavian neighbours, and the slowly accumulating impatience of the Western and Eastern civilised nations between whom they were intermediaries. They are interesting, because they stand upon the border-line of speculation in commodity and that in services. Their position as middle men, the foundation of their strength, became the source of their weakness. They were conscious of this, as is shown by their efforts to set up their own factories, notably at Bergen and Bruges, from which they moved to Antwerp and London, where for over three hundred years existed one of their self-contained quasi-monastic colonies, monastic in the type of its regulation, but prospering on account of a high standard of probity, and a freedom, for some time, from political and dynastic preoccupations which proved such a severe drain on their more dominating centres of Flanders and the Baltic. Although they evolved nothing that we can recognise as a credit system, they are said to have made extensive loans to

the Plantagenet kings. The ostensible reason of their downfall was the division caused among them by the religious upheavals of Christian Europe; but does any one cause account for the life and death of a trading confederation? By the middle of the sixteenth century, English navigators were sailing round their monopoly of the carrying trade and reaching Scandinavia and Russia direct, as much as English, Dutch, and Portuguese were sailing round the East Indian monopoly of the Mediterranean ports. On the whole, a monopoly of services would appear more difficult to preserve than a monopoly of commodity, for in no case can one imagine that a loosely connected group of towns could have prevented the eventual opening up of Europe. Some of their adherents — and the number of cities included in the Hansa fluctuated constantly from a variety of causes — broke away for one reason, some for another. In England and Holland at least, a definite rivalry sprang up on the part of local national “adventurers”, the outcome of whose activities we shall presently follow, and there was always that same jealous sentiment regarding the Hansa monopoly which, if we are to believe what we are now told, sent the Greek fleets against Troy. In London, the German inhabitants of the “Steelyard” in Thames Street were marched out. In other places their fate was less kind. Their monopoly ceased, their importance dwindled. By the middle of the seventeenth century they were gone. This is easy enough to perceive in the retrospect. It would have seemed preposterous to the observer of their floreat. Without the quickness of brain by which Venice led the world, Lubeck, and in a less degree Hamburg, Bremen, Bruges, Cologne, had for centuries a massive prosperity that has seldom been seen since in such a small compass. It was touched with a certain grossness, which may be racial or climatic. But, in revenge, the aver-

age temperature of their environment must have done something to give them steadier heads and tougher skins than their Southern compeers. The sheer difficulties of their navigation, the immediate violence to which they were subject, belongs to Northern Europe. By maintaining so strong a front for so long, they laid the foundation of further progress.

That further step was brought about by remote and unlikely movements outside the realm of economics and dependent on various considerations that are properly political and even religious. The united Catholic Europe of the period of the Crusades had broken up. At first the division fell roughly into Catholic against Protestant. But another and more far-reaching influence was also at work. Nationality came to be a fixed element in man's knowledge of himself. Like so many of the innumerable steps that make up progress, it was largely a reversion. The form of the new conception of authority was more like that which had anciently existed in the tribe than that which existed in the huge but hollow administration which Rome set up, and which the spiritual and temporal empires that derived from Rome had nominally continued. Within those wide but unsubstantial frontiers of authority lay the sub-jurisdiction of local territorial units, civil or religious, individual or corporate. These had grasped the possibility of taxation and the sale of privileges, but whether we look at the ancient "kingdoms" of Asia Minor, as they existed under the control of the Eastern empires, or the relationship of abbot and landgrave, and company and federation, to the supreme courts they intermittently acknowledged, we see the same uncertain alternation of allegiance and dominion, the same impossibility of efficient control which is the real aim of speculation.

With nationality an entirely different set of values is possible. Nationality proper, which has probably reached, if

not passed its highest possible development with the dispensations of the Treaty of Versailles, takes no account of race, language, and religion.

Attempts to fix any of these on a basis of nationality are always doomed to failure. Nationality is based on convenience and acquiescence in artificial authority, just as the nearest similar, the tribal, authority was built upon family sentiment and necessity. Thus it is national authority that forms the basis for credit, and hence for financial speculation. The early private "banker" (a misleading term for which "money-changer" is a more accurate substitute) did something to educate the mind of Europe; the city with its close association, its market, its slowly born code of weight and mark did more. But the city was limited in scope, the individual weak and helpless. It was not until the one extended its protection over the other, and that other felt bound by a willing allegiance to the place that gave him shelter, that something further could be made and saved and stored of all that which man produced by his labour. The city authority, notably, was the first means of redress for non-fulfilment of a bargain. Early freemanship parchments are full of stipulations that this, that, or the other burgess shall not be held to ransom when he travels abroad, for the unpaid debts or misdeeds of his fellow citizens. One of the privileges of freemanship was the tentative exemption from the multiplicity of dues, rights, octroi, and other devices for raising money, in the localities through which he should pass. This had a real if unequal value, for uncertainty of taxation has always had a modifying effect on speculation. But the city was not large enough, and too divorced from land, the early basis of wealth and source of recruitment. The real commercial unit was found in the national State with its gradually established guarantee of peace, order, equity, toleration, from which fol-

lowed its inter-racial if not international character. The nation once defined, there came a steadying of the bargain, for now the area of jurisdiction, and consequently the possibilities of taxation and molestation, the opportunities of market and redress in case of need, could be foretold.

All this has been concealed and forgotten by the roaring flood of individualism that swept the nineteenth century. It is only lately that the idea of the nation as an organised whole, directed to certain ends, has regained ground.

Very different was the conception of Plantagenet and Tudor monarchs of England, and even of Stuart and Hanoverian houses. To study the effect of nationalism on speculation we need not be offensively "patriotic" in looking largely at England. Island situation, a backward condition, made her less a part of the hegemony of Europe, and spurred on her sovereigns, who were often divorced by birth and habit from the native and the soil, and thus more able to take a dispassionate view. Their efforts to cultivate industry, foster the carrying trade, and maintain a quantity of circulating medium were more than sound — they were prophetic. The difference between industry, thus early inculcating a view of wealth wider than the ownership of land and agriculture, laid the foundation of low profit and quick turnover, for the best agriculturalist in the world cannot turn his money over twice in a twelvemonth. The carrying trade was the germ of that invisible export that has done as much as anything to save England in the twentieth century. The mere retention of money paved the way for the conception of transferability, that is the essence of the economic life of a highly civilised community. But the thing which is most astonishing to our eyes when we are able to trace it in the older English cities is the deliberate organisation of the trade: the butchers here, the cutlers there, weavers in one street and

cordwainers in another, the Jewry and the Cathedral Close or monastic enclosure — all so organised, compared with our chaotic nineteenth-century go-as-you-please.

Then came the early substitution of a representative principle instead of delegation of authority to landed interest. Another good mark for England was the comparative toleration of the Jews, their exile and re-admittance as necessity demanded, and not on account of non-economic prejudice. How much did not this make possible, at a later stage, the growth of financial institutions more native than those of any other country? Then in the middle of the cramped, difficult growth the world opened out.

It is curious to reflect that England, and even more the components of what came to be the United Kingdom, started out upon the new era with no natural advantages. The Baltic was barred, and they were forestalled in the Far East and the New West. Had the matter been left to what is nowadays called Private Enterprise, it is difficult to imagine what might be the state of the British Isles to-day. Fortunately the mercantile habit persisted in one dynasty after another, and the early adventurer got from royal hands the encouragement he might else have badly lacked. He was a late arrival on the scene, excluded from the early craftsman's guild, and had to fight his way. But with such encouragement he did get himself formed into one company after another, paying for his privilege, it is true, but exploiting it.

Originally formed into a guild of their own, the merchant adventurers, as distinct from craftsmen, and doubly distinct from the foreign trading interests established in London and the principal towns, received a royal charter in 1501, and their arms, duly emblazoned, are to be seen carved or glazed about the buildings they used. Thus, with all the trappings of the



THE BLAZONRY OF SPECULATION
Arms of Merchant, Grocer and Merchants Adventurer, circ. 1400, A.D.

Middle Ages, and, by virtue of kingly favour almost feudal, a devising of the new dimension of wealth, trade, to certain bodies, just as the old dimension, land, had been devised, in return for a consideration, there came into being this new faculty, the organised and State-supported reaching-out for new markets and the acquiring of a set of hardly known, and in some cases utterly strange, articles. It was not merely that there came thus to be a new set of values for new articles of merchandise. Beyond that, the whole scale of life began to change and the speculative mind to have full play. A country such as England, situated in a temperate climate, on the whole favourable to industry and sufficiently settled for accumulation, had maintained itself well enough as regards actual necessity.

Building materials, including those for ships, ill-dressed woollen clothing, and a coarse diet were already produced at home. The impetus given is most strikingly seen in the fact that much of what was at first imported might roughly be classed as luxuries, but more properly as articles enlarging the amenities of life. One of the great economic events of medieval England was the epidemic known as the Black Death of 1348, the scope of which, whatever its exact nature may have been, was determined by the general ignorance and dirt. With the new overseas trade came the first possibilities of care of the person and a more varied diet, and no subsequent visitation (such as the Plague of 1665) had anything like the same extent or severity, or created such a total dislocation of the labour market, if it can be so called.

In addition to such general considerations, the actual structure of speculative machinery arose directly from these voyages. We hear of the English ships discharging their cargoes and out of the proceeds paying a dividend of fifty per cent. Here we have, in embryo, the shareholders' meeting,

the apportionment of profit. These steps in transferability of wealth proceed directly from the nature of sea-going ventures. The basis of transaction broadens, the individual becomes one of a group with common interests, derives sanction from the State, and learns to extend his transaction beyond the cash basis. The new principle ramified rapidly.

In 1532 the London and Muscovite Company received its charter, and in 1581 the Turkey or Levant Company. It is true that various extraneous influences contributed to these effects. The trade with Russia was a result of expeditions undertaken partly for exploration, but the exploration was itself an attempt to sail round the monopoly of the Hansa towns, and even to reach the Far East by routes other than those already in the hands of Portuguese and Dutch.

The Levant adventure was equally a stroke at the Mediterranean monopoly and power of Spain. This rivalry degenerated into the pure piracy of Elizabeth's mariners, but that the impulse of genuine trade was continuous and successful is shown by the charter of the East Indian Company in 1603, and the Hudson's Bay Company in 1670, and the South Sea Company in 1711. Of all these the one which has survived is the Hudson's Bay, whose career has been the most chequered, whose difficulties have been the greatest, whose history has been the most romantic. The East India Company was for long the most successful, whether because the opposition it met with was less obstinate because it traded, not with primitive savages, but with the decadent remains of an ancient civilisation that had goods to dispose of, an immense hinterland of riches of the sort most readily marketable in Stuart England, or whether because it acquired a foothold by the cession of such sites as Bombay, as part of the marriage portion of the queen of Charles II. — possibly on account of all these factors, the East India Company had a

brilliant career of over two hundred and fifty years and founded an Empire.

We shall notice its history as its shares became, on the gradually organised Stock Exchange of the eighteenth century, one of the premier marketable securities.

The struggle in which the Hudson's Bay Company was involved was grim and lengthy. To begin with, access to the Company's ill-defined territory was difficult and dangerous, and only possible when the Straits were free from ice. The actual settlements formed were in the nature of small forts, to which the Indians were spasmodically induced to bring furs for barter. But this trade had to be captured from the French, whose territory along the St. Lawrence ran back to back with the Company's hinterland. Thus to the severities of climate and situation and the uncertainty of the native feeling, was added the laborious butchery of a minor war on European lines. The speculative aspect of the Company's business is, however, genuinely part of our subject; the articles derived by the Indians from the trade, and conversely, the Company's homeward shipments, had an export value immensely in advance of their respective domestic values. The moral issue does not concern us directly, for which we may be thankful. It is no cheerful spectacle.

The notion of joint stock is undoubtedly very ancient. The caravan possibly saw its birth. There is no means of tracing the antiquity of the shares in ships going to sea. As in so many other things, the transition from feudal to national control of trade in Western Europe did something more than simply to lump the tradesmen together, one street to a trade, a fashion common to London, Paris, Bruges, and traceable in many other towns. This may have been at least partly for convenience of taxation. The charter that all self-respecting guilds obtained was also a means of replenishing

the Exchequer. But among the craftsmen so segregated, there sprang up a more distinct innovation, the purchase of raw material in bulk by a number of them, or even by the use of the guild funds. When these were insufficient, the financial co-operation of outsiders was asked and obtained, all the more readily because the craft guild was a known entity with a legal existence.

The next step was the elimination of the craft character of the body operating. The whole problem of "foreigners", by which sometimes simply "outsiders" were meant, is most complex. At first unskilled persons, or skilled persons who had not paid their guild dues, were thus indicated; then provincials; then genuine nationals of other nations, as the idea of nationality developed. Finally economics triumphed. By the time of James I. the fact of possessing money was sufficient justification in itself. Twenty-five merchant strangers held shares at the time of the East India Company's first voyage. Meanwhile, to balance the entry of strangers into English companies on a simple financial basis, the genuinely foreign companies, French, Flemish, Dutch, Hanse, had been obliterated. This in some measure accounts for the insularity of modern London, remarkable in this respect among the great cities of the world.

Nearer home was that curiously fatal adventure, the Irish Society. James I. seized the lands of the Irish rebels. He leased them to the New Plantation Company for £60,000, and made each of the twelve major trade guilds of London responsible for an equal portion, leaving them to settle the land by drawing lots, and to get such help from the lesser companies as they could. The Iron-mongers, for instance, got £700 from the Brewers, £570 from the Scriveners, £420 from the Coopers, £360 from the Pewterers, £350 from the Barbers, £300 from the Carpenters, and found £2300 themselves.

Charles I. resumed the lands, but his son, naturally enough, was glad to confirm the charter and restore them. Hence the figure which Londonderry cuts in England's national history, and the fact that Macaulay found the arms of the Fishmongers, Vintners, and Merchant Tailors guilds stamped on the primitive artillery which had been supplied for the defence of the "colony."

Here, then, we have the real colonial speculation in its pure form. All the elements — charter, monopoly, joint stock funds, administrative rights, provision for defence of privileges, by armed force if necessary — are precisely those we find present in Rhodes' establishment of the chartered company in South Africa in our own memory. The public of 1610 was, however, less sophisticated than we. Private individuals held aloof, hence James' recourse to the Livery Companies. The rents at the beginning of the scheme appeared to have afforded a gross return of three per cent., but expenses, including depreciation, were ruinous; the whole amount was never entirely subscribed. And one company after another has parted with its property, some advantageously, some at a loss.

It was not always that the guilds and the companies that grew from some of them could be induced to undertake any concerted action. On the contrary, the nicely drawn limits of their privileges — the monopoly of which had been extracted from the Crown, or its advisers, by payment in money, or obtained, as were some of those granted by James I., by the naïve device of meeting the new monarch, for all practical purposes a foreigner, well outside the walls, in Middlesex, as he approached for his coronation, and getting the first word with him — frequently debarred or forestalled the possibility of united action. Nor was the situation much different outside the convenient insularity of the British Isles.

The Hansa group was at different times at war with foreign powers — *i.e.* powers other than the temporal Roman Empire, whose ineffectual protection was most often claimed — with their own seceding or revolting members, and with other companies of all descriptions. Thus the Newcastle Foreign Merchants were at loggerheads with the English Fishmongers Company over fishing rights, the Grocers and others with the English East India Company that brought home many of the commodities in which they traded. The staple that governed the early woollen trade was deliberately aimed at foreign woollen traders. The Flemish weavers in London were placed as far as possible from the Brabant weavers' liberties, on account of their endless factiousness. The Muscovite Company of London was again aimed at the Hansa, the Levant Company at Spain. The Virginia Company and the Hudson's Bay had to fight for their lives, while the South Sea Company, latest and most outrageous of all, was directed against Whig Party and Bank of England, Spaniard and Portuguese alike. The African Company succumbed to Dutch opposition. Thus early was the principle of competition, of which the nineteenth century was to hear so much, set on foot.

If it possessed no other advantage, the Hudson's Bay Company had at its head the romantic figure of Rupert. No one person could show, in the close juxtaposition of a single human personality, the changes that were sweeping across the world. Part of Rupert's character belongs to the days of chivalry. War was no longer, alas, a matter of individuals in armour charging each other for ransom. But Rupert got as near to it as he could. He galloped up and down Europe, where old local jurisdictions were being every day more obliterated by the new national distinctions, fighting now in this and now in that army, that was kept together by pay

and not by allegiance to its commander. Rupert himself was hardly of that world that he lived in. He belonged properly to the old international and internecine days. Himself a German prince, he introduced the new Swedish cavalry drill to English regiments very successfully. In the intervals, he careered about the sea in ships. It did not matter much to him against whom he fought. But he could not escape his destiny. The one thing that he did that has come down to us was to put his name at the head of a charter of a great trading company, the Hudson's Bay, the very survival of which, with its like, has meant the final extinction of the Ruperts of this world. The preamble that recites the concession by Charles II., to our "dear entirely beloved cousin, Prince Rupert, Count Palatine of the Rhine, Duke of Bavaria", and others, Lords of the Cabal Ministry some of them, and one Vyner, a goldsmith of the new banking sort, expresses the objects of the Company as being "the discovery of a new passage into the South Sea, for the finding some trade for furs, minerals, and other considerable commodities — by means whereof there may probably arise very great advantage to us and our Kingdom."

There follows the recitation of the monopoly — the fishing of whales, sturgeons, and other royal fishes — all mines royal, as well discovered as not discovered, of gold, silver, gems, and precious stones "and that the said land be henceforth reckoned and reputed as one of our plantations or colonies in America called Rupert's Land." Thus Charles II.

Clearly enough, this trod on the tail of the Muscovite Company, whose furs must be adversely affected; it forestalled the South Sea Company's monopoly by forty-one years; it could hardly have failed, had a passage into the Pacific been discovered, to have brought about a clash with Spain. The actual trouble, however, broke out nearer home.

The people with whom the adventurers into Hudson's Bay did come into immediate conflict were the subjects of Louis XIV. of France. Then we get a glimpse of the less pleasant side of the Stuart character, and one which made it inevitable that a great mercantile nation must one day find itself more trustworthy rulers. Louis of France was at that time subsidising Charles of England to keep him favourable to the project for a great French hegemony over Europe, that was not to be realised for another hundred years, and then in much different circumstances. Charles wanted the money to help him get round the obstinacy of that horrid, inquiring, stipulating, and everlastingly obstructionist Parliament of his. So he took no steps to uphold or succour the struggling adventurers into Hudson's Bay, destined to be England's longest-lived national commercial venture. More excusable was the stipulation that whenever royalty entered the territory the concessionaries should pay as homage "two elks and two black beavers." And this, with several pages more of seventeenth-century obscurantism, Charles signed, at Winchester, in the twenty-second year of his reign.

Now, in a great many cases it did not matter that some prince, temporal or spiritual, of that era handed out to some set of interested persons, in return for a consideration, trading rights over remote portions of the earth without consulting the inhabitants. Where are now the territories of the Virginia Company, the Muscovite, the Levant, the African companies, the *Compagnie des Indes Occidentales*, the projects of Elizabeth of England, Philip of Spain, Mazarin and Richelieu? Some did matter, as in the case of the English and Dutch Indies. But the difficulties stored up by the Hudson's Bay charter for future generations lay in the unexplored, much less administered, deserts of the great Northwest. Thus, in the treaty between Russia and England of 1825,

latitude and longitude had to be used to determine the Company's Alaskan frontier. And in one article the boundary had to be left as "ten marine leagues from the coast", the actual line running along inaccessible mountain summits. This was a great improvement on previous delimitations of the Hudson's Bay jurisdiction, which went up to the North Pole in that direction, and to the West, "as far as the land might go, but how far is hitherto unknown." The authority, also, of the Company with no military establishment ceased to be effective. The Northwest was opening up. J. J. Astor's "American Fur Company" had been launched in 1809 with a capital of one million dollars. Finally, in 1871, the Company's land, with certain reservations, was handed over to the Canadian Government.

The original capital of the Company was £10,500, divided into thirty-five shares of £300 each, of which thirty-four were duly subscribed and the other credited as paid in full in the name of Prince Rupert, as a reward for his services in obtaining the charter. The nominal amount was soon increased to £31,500, to correspond with the Company's early success. The transfer to the Canadian Government of the actual governing authority over the territories mentioned in the charter left the Company as a purely trading concern. Even so, other people besides Rupert had at one time or another been considered. Eighty-five shares were in the hands of various of the Company's agents, in different degrees. The final summary of the Company's career cannot be given better than in the words of the Report published in 1928 :

It is with very great pleasure to my colleagues and myself that we meet you in your new house, which I may call a symbol of our faith in the future of the fur trade. That trade has been called speculative and precarious, but we have followed it for some centuries, and hope to continue for many years more.

We deal in a fashion that does not pass, a commodity always in favour. I cannot bring this home to you better than by quoting the description of furs given by Henry Lane in the year 1567: —

“They are for our climate wholesome, delicate, grave, and comely; expressing dignity, comforting age, and of long continuance; and better with small cost to be preferred than those new silks, shags and rags, wherein a great part of the wealth of the land is hastily consumed.”

It may interest you to know that we held our first annual general court in the Tower of London in the year 1671; that from 1672 to 1682 they were held in Prince Rupert’s lodgings in Whitehall; and that for the next two centuries, or, to be exact, from 1683 to 1869, we met in Hudson’s Bay House. I may add that our predecessors took a pride in their house, which stood in Fenchurch Street, and was, according to contemporary accounts, “a very elegant brick building, adorned with pilasters and architraves . . . the vast repository of the Northern furs of America . . . lodged here till they are sold and exported to various parts of the world, even to the distant China.”

Thus, in holding our annual court to-day, in our own house, we are returning to the excellent custom of our ancestors.

With your permission I propose, as in former years, to take the report as read, and ask your attention to the accounts. Compared with previous years you will find a difference in form, marking the completion of the third reorganisation of the Company’s accounts since they were first established in minute detail. The first revision took place in 1718, when, after many years of struggle, peace was agreed between England and France under the Treaty of Utrecht. The second was undertaken 103 years later, in 1821, after the bringing in of the North-West Company, and, as chance would have it, just 103 years later still — that is, in 1924 — we commenced this third revision to meet the conditions of these days, when it is necessary to record a multitude of transactions in such a manner as to facilitate rapid analysis and quick decisions.

As you have been informed on several occasions within the last ten years, our trade is becoming more world-wide in its extent, and it is not convenient, nor do we consider it compatible with your interests, to attempt a separation of the figures relating to skins or silks, tobacco or tea, or as to the results of trade in Canada

or in England, or elsewhere, and for these reasons we have abolished the division between departments which appeared in previous accounts.

I am sorry to tell you that the steamer *Bayrupert* struck an uncharted rock off the coast of Labrador on July 22nd and became a total loss. In rough weather the breaking waves would have exposed the danger. As it happened, all lives were saved, but the calamity was still serious because we lost several thousand tons of supplies with very little time in which to replace them before the close of navigation. Our fur trade staff met the emergency as they usually do, and in one way or another the lost cargo was replaced and, with a single exception, delivered to the port of destination. The steamer *Nascopie* made an extra trip into the Bay, while Baffin Land and other points were supplied by the two small vessels, the *Fort Garry* and the *Fort James*.

We have reason to believe that, with one or two exceptions, the transport to the interior was safely accomplished despite the delay in arrival at the coast. The one exception was Sikinik, situated on the north-east corner of Somerset Island, and I wish to take this opportunity of expressing our thanks to the North-West Territories branch of the Department of the Interior for their kind assistance in bringing out our staff from that post. It was fortunate that their steamer, the *Beothic*, was making a short cruise in those waters, and this withdrawal was the best method of solving the difficulty which had arisen at such short notice.

We have not replaced the *Bayrupert* pending a consideration of the changes which may become necessary with the extension of the railways to the shores of Hudson's Bay. We have, however, made temporary arrangements, which will suffice during the next year or two.

I omitted to say that since 1926 our fur Trade Department has been exploring the commercial possibilities of the North-West Passage, the discovery of which was the object of our original charter in the year 1670.

Thus runs the record of the only considerable survival of the financial speculation of the Middle Ages. The reasons for its vitality cannot be certainly laid down, but some of

them suggest themselves, and lead to interesting reflections. The Company was founded rather upon an idea than a reality. Thus it did not suffer the stereotyped decay of more purely mercantile ventures. Its officials always had the project of exploration before them. They could never really settle down to mere routine trading. In brief, the Company had a permanent unlimited future. Then, no company had such difficulties to contend with at home and abroad. Its servants could only be the daring and resourceful, hopeful but frequently forlorn. The very plight in which they were so often left by their supposed protectors called out qualities that the easier lot of rivals never did. Beyond these reasons were the higher price given for native product, and finally, the immense, if distant and costly, possibilities of the territory, that has even now hardly begun its development.

Nearest in kind to the English ventures stand those of the Dutch. The very rise of England's opposite neighbour that faces her across the North Sea is so similar, yet so reverse in origin, that it affords the strongest evidence of the ubiquity of financial speculation. Here we have two peoples of allied if not identical race, enjoying the same climate and using the same waters. But internally their structure was utterly different. English nationality, with a monarchical setting that it had never lost, was the earliest of European nationalities to show such pronounced development, and had had to be deliberately led to speculation by a series of enlightened but autocratic monarchs. Holland was and is an extreme oligarchy, whether under its old quasi-republican or modern monarchical form. While England was, at the date of the events we are examining, self-contained and self-supporting, Holland was and is eternally condemned to be one of the principal outlets of a land-locked continent — the most natural outlet, since access was impeded by no adverse

physical features, and the nation itself had never been large or obstructive enough to make the peoples whose egress to the sea it masks seriously consider alternative routes. This very equality exercised a dominating effect on its history, for while the dream of a European Empire persisted, the nation at the mouths of the Rhine and the Meuse was bound to be the object of covetousness. Thus, though by nature sea-going, the Dutch, who embarked on the century of colonial enterprise, had actually been engaged for decades in a land war. In fine, oligarchical structure, obstinate spirit, but close-fisted habit at first evenly balanced Holland's chances of great colonial empire. As the centuries passed, her disadvantages slightly outweighed her advantages, and the relatively small size into which large neighbouring States cramped her may have been a decisive check upon her overseas growth. More than a check it could not be. To-day she remains, next to England, the most considerable colonising power of her kind, which is not that of France and Germany.

There is a curious similarity of fate, shown in the remains of the early ventures of both countries. In the East stands to-day, under each flag, a great productive territory. In the West, the northern seventeenth-century settlements have passed far beyond any European dictation, while in the South, three small strips of British, French, and Dutch Guiana mark the efforts that once were made to give a foothold to the three nations in the South American Continent — efforts which, had they been successful, might have had the profoundest effect on the language and religion of vast populations of the modern world.

Like the Elizabethan Englishmen of the half century before, the Dutch did not so much think of settling and trading with South America as of destroying there the supplies of wealth and treasure upon which their Spanish adversaries,

and the Portuguese dependents of these, relied for European war. There was further the interference of these powers in the Dutch carrying trade. The truce between the disputants expired in name, as it long had in fact, in 1621. The Dutch West India Company was then formed in typically Dutch fashion by the institution of five Chambers — Amsterdam, Zeeland, Rotterdam, Northern District, and Groningen — holding respectively four ninths, two ninths, and one ninth of the stock and being represented on the central council in approximately proportionate ratio, and to which was added one director, representing the States-General. This body also paid the Company 200,000 florins annually, only one half of which was to rank for dividends, and was further obliged to furnish twenty of the fleet of forty vessels contemplated in case of war. They must shortly have been called upon to ratify this part of the bargain, for the history of the first twenty years of the Company contains more warfare than anything else. San Salvador and other prominent points on the Brazilian coast were attacked, and even captured and held, but the strain was too great for the prosperity of a trading concern, and although the enormous captures of treasure ships enabled the director to pay at least one dividend of fifty per cent., Curacao was the only permanent gain that the Company made. Further, the structure of the Company was unwieldy and gave opportunity for all kinds of dissension. Even the more central and intelligent governorship of Count Johann Maurice of Nassau was faced with the difficulty of man power, which entailed slave-trading operations. As usual, the Governor's worst enemies were the Boards of Directors, who starved him of supplies, means, and assistance, and allowed political and even religious considerations to interfere with the attempts at productive plantation and trading. Even successful trading, however,

aggravated the labour question, and the supply of slaves involved an African colonial war with the Portuguese on that continent also. The Company was now obviously losing money, and an attempt to amalgamate it with the Dutch East India Company proved abortive. The Dutch arms still dominated the nominally Portuguese population until 1654, when — a portent — the Jews were found to be moving to the Surinam territory. They were justified by the complete collapse of Dutch ascendancy in Brazil.

The English attempt upon these coasts is marked by the romantic name and personality of Raleigh, with all his faults too fine and philosophic a spirit for that rude world of thinly disguised piracy and open slave driving. Some of the Leeward Islands, the Bermudas, and even Trinidad were settled, but the carrying trade seems to have been in the hands of the Dutch, to whom also was due the planting of sugar cane, that had so profound an effect on the future of these lands. Another minor venture was made at Providence Island in 1630, but only lasted until the Spanish forces put an end to it in 1641, and that after an attempt to sell it to the Dutch West India Company. Nearly a hundred years was to elapse before the South Sea Company, nominally approaching the Continent from its western coast, was to obtain from the Portuguese, with whom it rested after the Dutch were disposed of, the *Asiento*, that placed the slave trade in their hands. Even this concession, as we shall see, proved of very small actual advantage. In fact, colonial speculation by the colonising powers of Northern Europe seems to have been as impotent in America as it was competent in the Eastern field, although little difference can be observed in the economic structure or methods of the two adventures. To-day, the prevailing tone of South America derives directly from Spanish and Portuguese discovery,

and not from English, Dutch, or French exploitation. Nor was the brief escapade of the Swedish South Sea Company, founded by Gustavus Adolphus in 1627, any more permanent, and always owed much of its vitality to the desire of Dutch private traders to injure by indirect means the monopoly of the great Dutch company. Yet the Swedish language was spoken and the flag flown on the Delaware in 1638, and a Swedish African Company was founded in 1647. It looks as though Pope Alexander VI. had been inspired when he divided all that New World between the Spanish and the Portuguese, with whom it has rested.

In striking contrast to these now obliterated efforts, was the permanence of English and Dutch settlement in the Far East. In 1594 the Company of Foreign Merchants made the first Dutch voyages. Then Amsterdam, whose Chamber arrogated half the total trade to itself, led the formation of the United Dutch Company, in which bodies of merchants from all the Dutch towns joined, though on a very minority basis of representation. This organisation had no less a capital than the equivalent of £540,000, whereas the English Company, two years the older, began upon a meagre £30,000. But such disproportion was, after all, only the natural result of national outlook. The Dutch made for the islands with the object of ousting Spanish and Portuguese settlements, and obtaining not only possession of the territory, but command of the carrying trade. As we have seen, this policy was justified by generations of religious, political, and even economic persecution aimed at them by the Southern powers.

Further, from the permanent handicap of small populations, it was natural that the Dutch should not invite land war or alliance that necessitated maintenance of armies. English effort, on the other hand, was restrained by the Stuart kings' desire for peace with Spain, and later with

Portugal, when, the position of the parties having altered, the smaller country freed itself from Spanish domination. The English were negotiating with the Great Mohul, and in Persia also, while the foundation of the Levant or Turkey Company in 1581 was led up to by the appearance of an English mission at the court of Sultan Amuranth. Thus, although we are told that the English ships were better built and armed, the Stuart kings were vastly inferior to the Dutch merchant chambers in business address, and the fleets sent out by the two countries show the difference.

Indeed, English Eastern speculation, following and tending to oust the Dutch as the Dutch had the Portuguese, never did ultimately succeed; the Dutch retain to-day their earlier acquisitions, and the eventual development of English power lay farther inland, with results which we shall notice later. The actual foundation of the great joint stock colonial companies, however, marks a very important point in financial speculation, though the growth of such modern-sounding commercial facilities was very irregular. For instance, privateering for national, political, and only partially for economic reasons forms much of early Dutch and English, and even French effort. More or less sanctioned by the heads of these States, the actual operation was the attack upon convoys of countries like Spain and Portugal, who regarded the newly found wealth from an absolute standpoint, and had little conception of speculation in services such as the carrying trade. The later comers developed the regular trading station from which most colonies have sprung, and the early Dutch beginnings underlie everywhere the subsequent English development in the Far East, Oceania, and North (but not far North) America.

The early privateering conception was still existing in the nineteenth century, when privateers were chartered by sub-

scription as an investment during the Napoleonic wars, and possibly the celebrated *Alabama* is the last instance of the type. The second or trading-station phase, with more or less regular correspondence with the home country of origin, embraces all the above, and even some Danish settlements in Bengal and Oceania.

The third and inevitable stage of all this activity lies in the gradual necessary taking-over of the rights of chartered companies by the nations supporting them. Thus, though nationality, and especially monarchy, was valuable in the early stages as providing a more effective executive power than that which lay behind such trading confederations as the Hansa, this same element with its personal and dynastic incubus gave way in most cases before more democratic organisation. Out of these latter develop the purely commercial units, in which administration or political powers are separated and given up to national executive.

Even so, there remains the element of chance, still very powerful in the seventeenth century. It is amazing to reflect that for a hundred years the Dutch retained their hold, not uninterruptedly but continuously, on Japan, where they installed a factory and exported silks to Europe. Their hold in this remote kingdom was far stronger than that of the English, who had been the first to be received at its Court. In fact, seventeenth-century Japan seems to have stood on a far more Western footing than nineteenth-century Japan. The local banking system, which grew directly out of the difficulty of transferring revenue from the provincial towns to the capital, owing to the debased and ill-regulated currency, was certainly no derivative effort, but had its origin in skilful attempts to meet genuine local difficulties of island administration, and an embryo industrial state surrounded by primitive agriculture and fisheries. The Mitsui Bank at

least dates from 1683, and credit, in a limited degree, was separately evolved by the Japanese to avoid costly and inconvenient specie transfer.

A strong national or central executive habit is visible in early Japanese banking, and side by side with very advanced facilities there lingered in connection with the peasant the usual Oriental relationship of money-lender and pawn-broker. Distinct from this, the Dutch, and occasionally English and French, traders occupied a position similar to that of the steelyard merchants in London in the fourteenth to sixteenth centuries.

One of the characteristics of early speculation in the Far East was the immense distance and the limitations of sailing vessels. This persisted on account of the apparent impossibility of a land route. If seventeenth-century Japan was more "modern" and open than that of the nineteenth century, the comparison is even stranger with the Japan that sent its goods overland to Rome. The fact is that one of the great obstacles to speculation has been the decay of Asia. Contrary to our facile notions of easy and continual progress, it is certain that for two thousand years mankind has retrogressed from the Caspian to the Yellow Sea. The measure of mental ineptitude can be taken by the difficulties of post-war Russia. Even where economic theory has been pressed into practice in the most doctrinaire fashion, speculation, and a complete failure to grasp the nature of credit, remains to-day as strong as in the Napoleonic wars, the breakdown of the artificial but daring attempt of Peter the Great, or the previous great blank in the pages of history which records nothing but inarticulate barbarism. It seems possible that Asia, the earliest cradle of man's awakening intelligence, may remain that last portion of the globe to be economically civilised, though allowance must be made for the fact that since

the great barbarian invasions the native races of Asia have maintained themselves against the European, as those of no other continent have done.

Dealing as we are with the period of cash or specie payments, as distinct from transactions settled by credit instruments, we must record the importance of gold in the foundation of that transferability of value on which the possibility of speculation rests. With the exception of the unique and isolated Chinese copper currency, and a similar attempt at unwieldy tokens that is said to have brought about the introduction of banking to Sweden, gold has been the dominating means of the making, spread, and use of coinage. The earliest productions of Asia Minor began with it, and at the height of the use of paper in the nineteen-twenties the masters of untold millions of bookkeeping wealth have hastened to return to it. It formed the ultimate basis of the sinews of war for four years of world-wide struggle, and has been equally the foundation of the tedious reconstruction of the Peace. Its peculiar qualities and distribution leave it with a steadiness of value that is without parallel, and its only rival, the silver of the bimetallic controversy of thirty years ago, has made little progress in European favour. Gold is the last refuge of the absolute view of wealth. Its disappearance from common handling does not seem to affect the validity of its denominations as standards of value. The immense paper transactions built on it only need an infinitesimal quantity of it for their basis, but the tiny proportion it now bears to the wealth of the world diminishes, but does not disappear. It is a permanent figment of man's mental background.

In face of the bewildering diversity of systems, we may well ask ourselves, in what environment, political and economic, does a fruitful and progressive speculation flourish best? We have plenty of varieties to choose from. We dare not

even lay it down that the types of civilised society that we lump together as being characteristic of Western Europe are specially favourable. Japan evolved its own credit institutions before it looked to Europe for assistance. On the other hand, the great polyglot populations of America have carried the possibilities of credit far beyond anything of which Europe knows.

Again, the great free cities of the Renaissance, federated or standing alone, have not maintained their ground. Against this we have to place the economic conservatism of landed communities. And the evidence is even more involved than that. The reason that the very lucid economic philosophy often fashionable in France seems to have failed to place that country in the forefront of financial development, appears to be the wide distribution of the means of wealth. Many a Frenchman, one feels, refuses to launch out in credit operations. Why should he? He is relatively well off. But the same difficulty confronts the backward parts of Russia, aggravated, perhaps, by temperament. One point seems at first sight clear. Every nation that has persecuted the Jew has regretted it. Yet England, where, if not persecuted, the Hebrew race was officially discountenanced for three whole centuries, has grown perhaps the most thoroughly native credit organisation in the world. Yet England owes her mercantile marine, her oldest manufactures and industries, her banking facilities, primarily to royal prerogative.

In North America, at least, the reverse has been the case, nor is it possible to feel that the present financial institutions of the United States have inherited much from early British control. At the severance from royal administration, the people of North America proceeded to evolve an economic theory which is certainly not that of the United Kingdom.

We must be led to feel that in economics, more than in any department of human activity, a state of flux must be, now and for a long while to come, the most appropriate to healthy growth. The phases of human society have their vigorous youth, their prime, and their decline, just as individuals. More elements than the human brain can hold in review at once go to substitute credit, which, even under stress of competition, has a passive quality, for violence, which was the earliest means of acquiring and retaining a hold over material wealth. The point at which mankind is aiming is that at which possession is negative, and consists not in actually having the means of life, but in being able to procure them within limits, at will. Thus we see that purchasing power is more valuable than gold and silver, and the prospect of exchange more really wealth than any ownership can ever be.

All this was germinating in the eventful centuries that culminated in the seventeenth of our era. Man existed well enough before, but the very extravagance of his new demands in the region of mere daily comfort has called up unheard-of resources of earning and spending. The fluidity demanded by the standard of life thus so widely and apparently permanently raised began to separate finance from industry.

In financial speculation, the Middle Ages lasted until the final decade of the seventeenth century. The first signs of the modern world had made their appearance, doubtful new stars in the old firmament, all unconfirmed. Men had learned the advantages for trade together, in a body or company, in sharing outlay and risk, and had found it possible to divide profit. Moreover, the exchange of the now generally established and recognised coinages of most European and some Asiatic authorities had become sufficiently common to enable skilled practitioners to effect operations by account

instead of by actual hand-to-hand transfer of specie. The broker in Florence followed the fluctuation in the price of the public debt, the money-changer of Amsterdam made a sort of bet upon the course of the exchange, which was the primitive forerunner of our foreign currency contract. Up to about the year 1690 there still existed a chance that a united and determined body, a church or other society, might have resurrected the old taboo on usury and money-changing, and have preserved, for a period at least, the economic innocence of the world.

It is interesting to reflect on the possibility. In England, at least, wood fuel was becoming scarce. The infinitely superior sanitation and dietary of Rome a thousand years before was becoming known, if far from being copied. There still remained the possibility of perpetuating a series of agricultural States and handicraft towns with a life based on drudgery and enlightened by ascetic virtue, preached by a church which had by no means abandoned the pretension to be universal. The miracle had not given place to the note issue, and although the new surplus town population was beginning to cause perplexities, the Plague and other visitations were still capable of counteracting excessive reproduction. Nationality had broken up the old community of aim, and had substituted only very divided and predatory organisation.

For better or, quite possibly, for worse, from about 1690 the opportunities of financial speculation as distinct from speculation in commodity on a cash basis, were understood and seized. Thenceforward the modern world of machinery and credit, prevention and anticipation, came rapidly into being. Superficially, at least, it did not bear the appearance of a millennium. The general aspect of English society under Anne, French society under Louis xv., and eighteenth-

century Amsterdam and Venice, does not shine beside that of the England of Edward I., the France of St. Louis, the early flower of the great free cities. Against the decline in looks, simplicity, and unity, we have to put the realities of the newer age, and to realise that while we can look back to the days of Faith (and cash transactions) as something whole and complete, our own times are still all in the making. And how great a part does not speculation play in that process? It has yet to justify itself. In order to form some idea of its chance of doing so, we must next examine financial speculation proper by means of credit instruments.

PART III

“CREDIT IS SUSPICION ASLEEP”

SPECULATION in credit instruments, financial speculation proper as distinguished from speculation in commodity, or adventures in precious metals, begins almost exactly with the eighteenth century, though prepared by such ancient and unlikely seeming processes. We have seen that common standards of value had been set up in the form of coinage, transferable and exchangeable, as no mere weights and measures ever were or could be. Already there was paper about, written promises to pay coin under certain conditions. As convertibility was as doubtful as it was necessary, this naturally found its way into the hands of the goldsmiths, as being the only persons capable of dealing with it. The expressions “running cashes” and “bank” were known, but only in a most hole-and-corner way, to a highly specialised circle. The cardinal point from which financial speculation begins is the insolvency of England and France. In the year 1694 England, and in 1714 France, gave up paying their way. Hitherto, by fair means and even more usually by foul, coin had been collected and disbursed in payment of the king’s debts, if they were to be paid at all. So long as the doctrine of Divine Right persisted, there was no real distinction between the king’s debts and the nation’s; we know from Pepys of the struggle to pay for the navy. Mercenary soldiers, gradually becoming recognisable as a standing army, were equally difficult to maintain; and to such annual expenses

was added an ever-growing civil list. The story of the high-handed Stuarts' seizing of the goldsmiths' money needs no re-telling. The devices of Louis XIV. to finance his empire were no less arbitrary. The only point that needs emphasis is the fact that speculation was almost non-existent in the era of cash payments. Uncertainty, indebtedness, discounting of the future, are the conditions under which it arises.

At the very entry to our subject stand two great figures — Law, a Scotsman, genius, visionary, student, perhaps madman, certainly a gambler, and Walpole, a rough-elbowed squire, always just sober enough to give a bribe or save his country. In a remarkable way, these two typify their respective nations.

At the opening of the century there could not have been any doubt in the mind of the impartial observer as to which of the two had the more brilliant prospects. France was leading Europe brilliantly. Sweden had receded in importance, Spain was supine, England only just emerging from half a century of distraction. Many reasons have been advanced for the fact that Holland never took the first place. Either on account of size, which made it difficult for her to maintain herself in the field against Spain, France, and finally England, or because of the relatively short periods for recuperation that she enjoyed between the oppression of Alva and the ambition of Louis XIV., and the overseas thrust of the United Kingdom, or perhaps on account of some inherent habit of mind, Holland never figures as the dominating world power. First in navigation she frequently was, and inheriting more directly the legacy of the great exploring and speculating centres of earlier Mediterranean powers, we find that in America and India, and finally in Africa and Australia, her efforts were overlaid by subsequent English-speaking civilisations. Nor can the secondary place she has taken be attrib-

uted to religious autocracy, as in the case of Portugal. That secondary place she has held with a remarkable tenacity, and we shall see that in the post-war reorganisation of the world, the enormous credit market that embraces London, New York, and Paris includes Amsterdam. Her tradition in free gold is unparalleled except for that of England. Yet a secondary place is hers, and it is not in the history of Amsterdam, with its banking and shipping organisation, that we can most clearly trace the development of speculation.

France, too, failed to maintain her brilliant lead. The Rue des Lombards did not survive as an international byword, as Lombard Street has done. Though larger in population, more startling in achievement, more fateful in destiny, more frequently served by sheer genius, she was cramped by something stiff and unadaptable, the domination of great individuals or a too logical way of thinking. It is, therefore, to London that we must turn to follow our subject.

The London Stock Exchange became a legal entity by the legislation of 1697. This does not mean that there had been no jobbing before that date, for some sort of a market existed in the stock of the East India Company, and in 1696 exchequer bills were issued. Thus we see that Government-borrowing, and this only, canonised financial speculation. The actual birth of the Stock Exchange is typical of England. There was no flourish, no preamble, no intention. Jobbers were a nuisance: they invaded the Royal Exchange, built and constituted for other types of transactions. The enactment that recognises them is one designed to restrict and control them. About the same time, and even more accidentally, the name of Lloyd became identified with a room in which marine auctions were held, and with a short-lived news sheet.

From the first, the persons at whom the regulating legislation was aimed bore no enviable character. Partly from sentiment regarding those who dealt in money, above all in the lending of it to the Crown, partly from the disreputable manœuvres, lowest as well as earliest forms of manipulation, and largely confined to the fabrication of false news, in which they indulged, they were so unkindly looked on by the regular users of the Royal Exchange, that in 1698 they decided to remove their burdensome lives from the place where they were too easy a target for the finger of scorn, and moved into 'Change Alley. Here, described by the contemporary pamphleteer in a well-known diatribe, came to be “the Kingdom of 'Change Alley and its adjacencies”, reaching as far eastward as Birchin Lane, and bounded on the north by Cornhill, and consisting in anything between a desk or booth, and certain well-known coffeehouses — any place, in fact, where persons desirous of dealing in such marketable securities as existed could meet each other. This new rendezvous was no better thought of, and an effort was made to force the jobbers to return to the Royal Exchange, where at least they were subject to some sort of supervision. An undertaking not to congregate in 'Change Alley was inserted in the bond that each jobber was required to furnish, and actually remained until well into the nineteenth century. From the first it was a dead letter. The reason for the jobber's survival and his immunity from control lay in the necessity for his presence in the recast community of the reign of William and Mary. If England was to maintain herself against France, money must be borrowed. The new and supposedly temporary paper depreciated, in any case. A market for it had to be found. The jobbers, with all their faults, would sometimes bull as well as bear.

The situation from which it was impossible to oust them

was, after all, as natural to the epoch as they were themselves. The historic meeting place of medieval England, if it was not the church, was the inn. There was springing up, just at this time, a new sort of inn. The coffeehouse had hanging about it all the atmosphere of those fabulous Indies that bulked so largely in the mentality of the time. The very air was parvenu. The Middle Ages had seen man with his eyes raised to heaven. The eighteenth century first noticed that his feet were entangled in all sorts of muddy expedients. Furthermore, it is only just to the jobbers to reflect upon their situation. Many were Jews who had followed William from Holland, to which country they had been driven from Spain; with this section the memory of persecution was not dead. The materials to their hands were largely Government borrowings, and if William was a man of his word, he was the first for many a year. In the earliest issue of exchequer bills, enormous frauds were perpetrated. On all considerations, therefore, it cannot be wondered at that the new community was not averse to dabbling in any fresh means of turning a more or less honest penny. The statute book was strewn with miscellaneous and obsolete charters of monopolies, that could be used as a basis for all sorts of projects. Added to this, gambling was fashionable for its own sake. These combined influences account for the flotation of the charitable corporation or loan society, on whose prospectus, we are told, "the wants of the needy, the infamy of pawnbrokers, the purest philanthropy and a positive five per cent. were skilfully blended." Half a million was subscribed eventually, and through the grossest malfeasance only £30,000 could be accounted for when, following upon a panic, inquiry was instituted. The Linen Manufacture Company, the Saltpetre Stock, and others are mentioned in contemporary writings. The East India Company seems

to have been the largest counter outside strictly Government issues, and Hudson's Bay Company is less prominent. On the other hand, the derelict Jacobean Charter of the Mines Royal, Mineral and Battery Works, was used not for a flotation but for the protection of an underwriting project, which developed into the Royal Exchange Assurance, just as a rival institution called “Chetwynd's Bubble” developed with the London Assurance. The actual bookkeeping by which the capital was subscribed can be seen in the accompanying reproduction of ledger pages from the account books of Paterson's ill-fated Darien Company, that was to have colonised the isthmus of Panama.

Such was the available speculative machinery of the London Stock Exchange (then only known as “the jobbers in 'Change Alley”) when it rushed into its first great crisis. Characteristically, the idea and most of the details were borrowed from France, where the Mississippi Scheme of Law was in all its splendour. Superficially, John Law, the father of financial speculation, appears much the same sort of person as Paterson, founder of the Bank of England, who might be described as speculation's father-in-law, and Walpole, its schoolmaster. Like the former, he was Scottish by birth and upbringing, and may owe, like Paterson, something to Celtic race (whatever that may eventually be defined as being) and the climate to be found not merely in the romantic Highlands, but anywhere north of the River Trent, a climate which, loth as one may be to admit the influence of environment on the human spirit, undoubtedly does something to prevent laziness.

Such, at least, must be one of the reasons for the enormous activity Law displayed. There are many views of him taken by history, that he was a gambler, an adventurer, even a charlatan. One thing can never be taken from him, his

immense energy, and another, his generosity. He was able not merely to work harder than most of us, he was able to play for more hours of every day during years, than many can afford to give to serious study or creation, while mathematics and high finance were his hobbies. Yet it was his wildness that sent him out upon his career. Well connected, even aristocratic on the side of his mother, a Campbell, his father was a goldsmith on the North Bridge in Edinburgh, and engaged in the banking transactions of his kind and period. The son was therefore brought up in easy circumstances, had the benefit of the education then obtainable, and showed a great taste for algebra. He showed an equally great taste for play at the gaming table, migrated to London, where his handsome person and manners, agreeable address and bottomless audacity, gained him the entry of the Court circles. In 1694, while his humble and more respectable compatriot was founding the Bank of England, young Law fought a duel to a fatal conclusion, was captured, tried, and condemned to death, appealed, and, by a mixture of bribery and good luck, the relative proportions of which will never be exactly known, escaped to the Continent. He was twenty-three years of age, and seems to have fallen on his feet.

At this time France had an enormous debt, like all those existing debts consisting of the deficit created by the excess of the personal expenses of the last reigning monarch in wars, palace-building, and the lighter side of Court life, over the greatest possible proceeds that could be extorted from the various and continuously changing schemes of taxation. The main struggle for colonial empire between England and France is important to our subject, because it was the beginning of this struggle, at the opening of the eighteenth century which it was to fill, that brought to a head the seedling eco-

conomic growth of the two main powers of Western Europe and the world. There came a point in France, as in England, at which persuasion, threats, usury, and lotteries could get no farther, and confiscation by the head of the State of sums borrowed, though less high-handed and arbitrary than that perpetrated in England, was the only possible step. In fact, in one of the earliest of his Councils, the new regent of France, with whom Law had already cemented a firm friendship, had before him for serious consideration the declaring of a national bankruptcy. An inquiry commission being appointed it was at length arranged that a sum representing approximately £120,000,000 sterling was established on particular funds at four per cent., while a further £20,000,000 was funded in what would now be called treasury bills, at the same rate, but apparently unsecured by any special hypothecation of taxes. In any case, the total amount required for interest could not possibly be found; thus, although less brutal than the methods of Stuart kings, this audit was just as confiscatory in effect and was not excused by any profession of divine right.

This state of things, which caused the gloomiest foreboding and much real distress in France, was just the atmosphere in which Law seemed to move as a native. Probably we shall never know, and never be able to realise, how far he was preternaturally skilful in handling money, how far merely daring and shiftless. The same mystery surrounds his exact movements. Various accounts exist as to what he did with himself from the day when he fled from prison and England, to the day in 1716, when he just failed to obtain a sort of financial comptrollership of France. He appears to have had a double reputation for magnificent display and hard-headed tracts in political economy, which in the twentieth century would be mutually destructive, but which the early

eighteenth century seems to have taken in combination as the highest recommendations.

During the twenty years of obscurity, about which we have only rumours, it seems certain that he had been to Amsterdam and Florence, had investigated foreign banking systems of the day, gambling all the time, presumably able to revisit Scotland when he wished, and to publish his tracts, "Proposals for a Council of Trade", for that country in 1700, and "Money and Trade Considered" in 1705. Such was the man who, received in the highest places as well as the lowest, among the most exclusive nobility that ever existed, and carrying about with him a personal fortune of £100,000 in gold, yet was refused by every Cabinet or Parliament to which he offered his services, and received hints from prefects of police to remove himself, at short notice, from European capitals.

Undoubtedly political methods of the day were in part responsible, by subterranean intrigue, for the extraordinary ups and downs of his adventures, for only one set of people profited by the then condition of France — those by whom the annual taxes were framed: and this set, of course, looked upon Law as that most hated kind of rival, one who saw through the game of spoliation. What he did eventually succeed in doing was to found, of all things, a private bank by authority of royal letters patent, at his house in the square subsequently known as the Place Vendôme, largely with his own funds, but with permission to solicit subscriptions in order to raise a total capital of the equivalent of £300,000. The objects laid down were the facilitation of exchange between Paris and the provinces, the increase of the circulation of money, the combating of usury, and (herein lay the consideration that induced the grant of royal permission) the inducement and encouragement of the inhabitants of France to pay their taxes.

The actual construction of the bank which he thus launched at Paris, in an age when men still carried their wealth in the form of precious metal on or near their persons, and defended it, if need be, with their swords and those of their servants, strikes us by its modern appearance. The capital was divided into 1200 shares of the equivalent of £250, two general meetings were to be held in each year, at which shareholders were to vote in proportion to their holdings, the authority of the officers was limited and they had to find a guarantee for their behaviour, the objects of the company were defined, there was actually a provision for half-yearly balancing of the books. More in keeping with the time was the quaint stipulation that the deposits, even of foreigners, should, under no circumstances, be subject to confiscation. There, at the end of a set of articles astonishingly similar to those of a twentieth-century bank, we see in a flash the mentality of the eighteenth century. Another reminder is in the regulation, actually printed on the notes the bank was licensed to issue, to the extent of its deposits, that these must be repaid in coin of the weight and standard of the date of signature, thus circumventing the wilful debasement of the coinage that had been one of the most bitterly resented economic crimes of the bankrupt Treasury. Law talked as if he anticipated keeping a cent. per cent. reserve against the note issue, but what was far more to the point, he succeeded in arranging that the notes of the General Bank, as his institution was called, were to be accepted in payment of the royal taxes. The Bank was an immediate success, the notes rose to a premium, the foreign exchanges moved in favour of Paris, and at the general meeting in December, 1717, presided over by the regent, a dividend at the rate of fifteen per cent. was declared, the half-yearly proportion being immediately payable.

Law was justified up to the hilt. And no wonder. After admitting all his faults, the fact remains that his brain power and organising ability were centuries in front of his time. He saw clearly enough that a great colonial empire, complete with standing army and navy, could not be run on a cash basis. The mere time lost in accumulating a sufficient hoard of precious metals and handing it out again was prohibitive, not to mention that there did not exist in any form sufficient bullion to liquidate the new long-distance trade. The day of credit had come, and no one knew better than Law that credit is sentiment. When that goes, no reserve is ever sufficient, and even gold will not remove the ever-present faculty of hoarding that lies at the back of the mind of the most modern men, until the sentiment of which gold is but the symbol returns, and is generally shared. The more we look at the matter the more we must be inclined to believe that Law had a quite special genius for productive speculation, apart from another side of his mind altogether, which seems to have been possessed by the mentality of the professional gambler. Without putting him down as the villain that he has often been called, and by none so readily as those who were incapable of understanding and working his schemes, but used them purely for their own ends as a means of personal enrichment, we may discern that the fate which pursued him was absolutely inevitable. No individual is allowed to go so far ahead of his generation as he did. The average human nature about him failed him at every point. The first irrevocable disaster that overtook him was the direct result of the royal favour he had been obliged to curry, in order to obtain his patent and other privileges, without which he could not work.

Very shortly after the half-yearly general meeting, at which the dividend was declared, Law received an intimation that

the Bank would be taken over, under the new title of the Royal Bank, by the king, who would pay out the proprietors, adopt the note issue, and maintain the convertibility of this as then guaranteed. However flattered at this direct change in royal (to be exact, in the regent's) opinions, and in spite of a post equivalent to managing director, which was reserved for him, Law had no illusions about the disastrous nature of the change, and opposed it as long and as much as he dared. It reversed all the principles on which its success had been built, and substituted for credit founded upon genuine necessity and careful management, the credit of the throne, at that date an absolute monarchy, and already discredited by short-sighted and tyrannous economic errors. How right he was immediately appeared in an alteration in the tenor of the notes, which were henceforward expressed simply as payable in silver coin without the definition that had safeguarded that proviso, and these progressively deteriorated by over issue, though this fact was not visible while the boom lasted. The anxiety Law felt was heightened by the fact that he received, a few months previously, the patent he desired for his great colonial flotation called the *Compagnie des Indes Occidentales*, the foundation of the Mississippi Scheme (primarily a land development company operating over the French Crown colony whose name is perpetuated in the name of the State of Louisiana, U.S.A.). The shares were so issued as to absorb the badly depreciated treasury bills on which interest was in arrear, and such was the glamour of Law's name at the head of the new concern that this low-valued Government paper was carried quickly to a premium.

This is the point at which it becomes impossible to discriminate exactly as to what went on in Law's own mind. He may have felt that the extension of the royal prerogative over his Bank took the virtual control of the now immense

organisation out of his hands ; he probably was acute enough to see, in the breaking of faith over the note issue, the beginning of the inevitable end ; he certainly was exposed to the bitterest animosity of the ministers whom he had supplanted, and the actual competition of the farmers of the State taxes who attempted to run a rival company, which, however, proved a failure, a fact which again did not increase the circle of trustworthy friends upon whose devotion he could rely when in dire need. Further, we know that he became subject to fits of mania, and this again may have rendered possible a readjustment between the several contradictory elements to be found in any human individual, not least in Law, and have allowed the part of him that was adventurer, duellist, escaped prisoner and promiscuous gambler, to overcome the other man in him, the student of algebra and economics, the organiser and statesman. His destiny now began to move with fatal swiftness and huge proportion. While the negotiations for the transfer of the Bank were in progress, the Company, now called "of the Indies" took over the tobacco monopoly, a little later the Senegal Company, and finally, the chartered rights over the East Indies, China, and the South Seas (the Pacific). To this was added the management of the Royal Mint, the farming of the taxes, and the handling of the whole of the revenue receipts. The kingdom of France thus became welded, with its colonial empire, into one enormous trading corporation, with a capital divided into 600,000 shares. The first issue of 200,000 was made at 500 livres, say £25, according to the silver standard of that day, but as the subsequent monopolies were acquired, issues were made at 550 livres (payable in coin), 1000 livres, and, finally, 5000 livres each. As the regent was able to earmark large blocks for his own disposition, the supply was short in the market. Further, a dividend of 200 livres per share was

announced, and there are computations extant which make it seem likely that this very high yield could have been paid. But far beyond any reasonable calculation soared the sentiment regarding the concern. This had its base in the glamour of all colonial ventures, which, although over a century old, was still strong, and equally, we may believe, in the sudden and unprecedented relief felt by all sections of the public at the improvement of the circulation by well-thought-of paper instead of debased coin, and last, but not least, in the utter novelty of the notion of making a fortune by the mere rise in the value of paper while the holder slept, a novelty which we cannot recapture, and which, if we did, has been spoiled for us by many a bitter page of history. More than any of his subjects, the head of the realm had reason to congratulate himself that, in a country constituted as France then was, it had been absolutely necessary for Mr. Law to pass through the hands of the regent, in order to obtain the privileges necessary to founding the monopoly which, as ever in great speculative occasions, was the only notion of manipulation, and which was greater in the archaic world that contained so few and such feeble competitors.

The royal purse benefited at every turn, from a sudden popularity among subjects who, when trade is depressed and taxation heavy, are prone to blame the executive, and, when the reverse is the case, are correspondingly complacent and ready in payment, to the extinction of the burdensome national debt. There was, further, the gigantic royal holding of 400,000 shares, two thirds of the total capital, on which the dividend, if held, or the profit, if sold, exceeded the wildest dreams of even an absolute monarch. Then there were heavy premiums or rents to be paid for each monopoly granted (equal to £100,000 extra for the tobacco concession, and £175,000 increase for handling taxes). There was the

misuse of the Bank's note issue, and the power of commanding loans from it, with an ease and certainty that were nothing short of miraculous to a monarchy that had been obliged to float irredeemable treasury obligations, immediately depreciated, and demanding an impossible interest service, to tamper with the coinage, and put up with the exactions of a hated and cheating and ruinous tax-collecting authority. Thus the real achievement of Law acted and reacted. The new and unheard-of condition of the royal purse permitted, a little more than twelve months after the taking over of the Bank and the inception of the Mississippi Scheme, of the remission of 52,000,000 livres of taxes and the extinguishing of 35,000,000 of duties. Money thus relieved was plentiful, usurers went bankrupt for lack of demand, trade flourished, emigrants returned, work was abundant, and it is said that over 300,000 foreigners (not habitual residents) flocked to Paris, creating a new industry in themselves, with corresponding stimulus to catering and housing and transport.

This was the situation as 1719 gave way to 1720, and it seems all the more probable that, at this moment, the conspirators who inflated the South Sea Bubble in England borrowed the suggestion from the events in Paris. Debt cancellation was, we know, in the air; similar possibilities seemed to be offered by the English chartered colonial companies, and there was the ancient and by no means waning rivalry between the two sides of the Channel. The British ambassador in Paris had become extremely fearful of the power and popularity of Law with king and people, saw with apprehension the sudden revival of wealth and power in France, and did his best to discredit the creator of so much that might be inimical to the new, struggling and divided "United" Kingdom he represented. His efforts recoiled

upon his own head. It is supposed that the Prince of Wales (afterwards George II.) was interested in the Mississippi Scheme, as he subsequently was in the English South Sea Company; certainly numbers of the nobility and gentry were. English experiment on the same lines had hitherto been tentative and unhappy. The Bank of England had already suffered a severe crisis, was no more popular with the private bankers in London than Law was with the ousted tax farmers; it was also made an element in the party game then being strenuously played in England, to an extent that Law's projects never were. And there reacted upon this fact the patent possibility that a resuscitated and strengthened France might have supplies and means, and even inducements, to upset the recent and unstable dynastic settlement in England. So strong was Law, so weak and venal was government in England, that imitation was preferred to caution. The ambassador was replaced by one who kept on good terms with Law. Here, then, we have every element of speculation. The issues at stake were national, even international. A new means of dealing had been invented. A new class of people had risen up to operate the new powers placed in their hands. Monopoly had been obtained and manipulation was possible. At this time Paris went raging mad. Law, so far from being the villain of the drama then enacted, was the only person who behaved with dignity and restraint, with the possible exception of half a dozen noblemen, among whom were St. Simon and De la Rochefoucauld. At a time when his private house was besieged by a crowd that numbered all the highest as well as all the lowest in the land, he never forgot to show personal friendship or clannish hospitality to his own intimates, or to Scottish strangers in Paris. While at nights he was unable to rest and the gravest fears were entertained for his mental

state, by day he never shrank from the task that fell to him, and does not appear to have been guilty of any improper practices with regard to the tremendous responsibilities resting on his shoulders. He used no bribery to further his plans, falsified no accounts : it was not he who tampered with the convertibility of the notes. He may have lusted for power ; he may, like many a Scot, have been proud of his theories and anxious to prove them and enforce their practice. He does not seem to have had personal greed. If he had, it was not satisfied.

One thing did disturb the intimacy of his relations with his family. It had been made a condition of his being appointed Comptroller-general of the finances of France that he should profess the Roman Catholic faith. He was publicly received at the great church of Melun in December, 1719, with his son and daughter. His wife refused to accompany him, and was greatly distressed. This act, however, seems to have put the last touch to his popularity with the people. He was now considered as the saviour of France, a person of no less importance than the king and regent. His enormous charities were certainly on a royal scale. The further remission of taxes he made possible and induced the regent to sanction were more than royal. He was made a member of the Academy, received the freedom of the City of Edinburgh, and there was even talk of raising him to the French peerage.

The more interested class that lies between the high and the low showed, however, the most extraordinary symptoms of the time. Stockbroking was entirely new ; there was no regulation of it and no provision for it. The Rue Quinquempoix was totally unprepared for the scenes that now took place in its restricted area. Every room and shop front began to let at extortionate rents ; a cobbler who had a stall

"beneath the wall of M. Tourton, the banker" found a better use for it, in letting it for the accommodation of ladies who came out of curiosity to see the crowd. The incident that brought the new conditions caused by the unheard-of economic developments forcibly before the Government was the murder of a rich broker by a Flemish nobleman, Count Horn. The murderer was highly connected, and, as in that day the Government of France had no doubts whatever about there being one law for the rich and another for the poor, he might have escaped execution, had not Law intervened and insisted on the necessity of making an example of him. Here we have one more evidence of the contrast between Law's outlook and that of all his contemporaries. He had no illusions as to the delicacy of credit, or the elements of justice. But attention having been publicly called to the state of things existing in the suddenly constituted stock market, an edict was promulgated forbidding the use of the Rue Quinquempoix. This dispersed the stockjobbing fraternity, if they can be so called, for they consisted of every sort and class of the population, and even of other nationalities, and had been recruited as much among servants and messengers as among the business classes, the tendency being for the lower to predominate. It seems that there was nothing unusual in persons of rank meeting their own cooks or coachmen at places of resort considered select, and in being told frankly enough how and why they had come there. The nobility, on the other hand, were always handicapped by the fact that, if they traded too openly and directly, they risked the loss of their patents for having been engaged in trade. The most picturesque story of those days is of the humpback who made many thousands by leasing out his deformity as an emergency writing-desk. This incident, and the scene in general, are to be found portrayed in the accompanying illustration.

The Place Vendôme was the next place for the congregation of the public, but was in reality no more suited to the traffic it now had to bear than the quarters formerly occupied. The buildings about it were not designed as offices, and marquees had to be erected. Here we come again upon an enlightening touch. In addition to those reserved for business, there was one marquee for refreshment and one in which quadrille was played all day, and jewel lotteries were conducted. That they were well patronised seems likely, as the place became a resort where society walked in the evening. The commotion was so great that upon the Chancellor complaining that he could not conduct business in his court adjoining, a further move was made. It can be seen from such an account, even allowing something for the exaggeration natural to a phenomenal phase, that, while on the one hand the king had interfered with the administration of the scheme as originally conceived by Law, on the other, the thing itself, by its effect on public sentiment, had flown out of control by him or any one else. Such a situation would be dangerous enough to-day with all the precautions we have devised, and when we add to eighteenth-century mentality, and the immense and sudden relief to trade and industry, the eternal gaping curiosity of human nature, the steady and rapid march of events seems natural enough. We have to remember that in 1900, when the first tube railways were opened in London, crowds travelled up and down in them all the evening, from sheer novelty. Even less can we wonder at the Paris and the London of two centuries earlier. It is therefore not surprising that the complete and final breakdown of the Scheme was not due to the action of the public, nor of any official of the Scheme, but to the jealousy and fear of the small *bloc* of officials, secretaries of State, revenue collectors, and councillors, upstart or hereditary mismanagers

of the country's affairs. The difference between the South Sea Bubble in England and the Mississippi Scheme in France was that in the former country this small but powerful clique were directors of the Company, in the latter they were outside and opposed to the Scheme.

That they had every ground for fearing that they might be personally and permanently superseded by Law is evident enough, but what drove them to the crucial step may well have been that they saw in him not only a new man, but a new mentality, one in which a backstairs cliqueism would be helpless in preserving to the right people, namely themselves, the endless exploitation of the national affairs. Public life has grown perceptibly cleaner since those days, but the same spirit can still be found present wherever a sudden and great advance in public facilities is made, and would manifest itself in London or Paris to-morrow, not to say New York.

The actual point reached by Law was that at which the whole public debt could be exchanged for shares in the Scheme. In order to pay out the proprietors, the king had borrowed from the Scheme, which, *per contra*, was liable to him for the premiums and rents on the various monopolies granted to it and for dividend on the royal holding. The calculation has been made that the balance due from the king was not more than 8,000,000 livres, a sum by no means impossible of payment. Furthermore, by sale of even a portion of the royal holding of shares, the bank notes in circulation, by far the weakest point in the adoption of Law's bank by the sovereign, could be reduced to those issued for value; for it seems evident that the king had already succumbed to that greatest temptation of all governing bodies or persons, the printing of bank notes for private convenience unrelated to the needs of the nation's trade. Thus France having become one vast trading concern, among several respectable



LAW'S SYSTEM

Scenes from the Compagnie des Indes Scandal, Paris, 1720

assets was possessed of one we now know to be of almost endless possibilities — the reality and services of a big slice of a great new continent.

On a great wave of excitement, the shares were carried to a price of over 10,000 livres. The anti-Law *bloc* struck only just in time. But they were in time. The point of attack was, very rightly, the swollen note issue which, it was contended, was out of proportion to the amount of specie in the country. But they did not desire to liquidate the disproportion gradually, or to provide a reserve commensurate with maintaining convertibility. To do this, of course, would have been wise and statesmanlike, and would have left the credit of Law untouched. They therefore persuaded the regent to publish an edict reducing the value of the bank notes by one fifth immediately, and by one twentieth each month until they should be worth only half their face value. In order that this should be effective, it was necessary that the shares of the Mississippi Scheme should take part in and keep pace with this process. Law opposed the edict for all that he was worth, pointing out that the most serious results must be apprehended and that his personal honour must be impugned, not only as the sole founder of the new prosperity of France, but because, by hideous irony, the edict would be published as upon his authority as Comptroller of Finance. He was overruled, designedly, for the very reasons he put forward. The edict was published on May 21, 1720. In twenty-four hours the entire fabric fell to pieces. Law had the bitter satisfaction of "I told you so!" He had little else.

It was not merely that the edict was a deliberate violation of the tenor of the notes as originally issued by Law's General Bank. This point appealed, no doubt, to those who grasped it. The thing that troubled the miscellaneous crowd who had taken notes in payment was their first experience of a

run. The amount of notes actually in circulation was over 2,000,000,000 livres, and the Bank was believed to hold some 300,000,000 in specie. Had there been any organisation for payment of notes slowly and widespread about the kingdom, this quite respectable reserve might have gone as far as any reserve ever does at such a juncture, in allaying panic. But a dual process had been at work which endlessly aggravated the situation. On the one hand, many of the more successful stockjobbers had been exporting specie to foreign countries, thus showing a combination of bad conscience, with a total distrust of any credit basis of business whatever. Law, on the other hand, whether because he really thought that at that date he could wean the public (and above all, a French public) from their traditional and not even to-day extinct habit of hoarding, or whether by that time his extraordinary exertions and responsibilities, and surely some inkling of his utter loneliness and the treacherous nature of his popularity, had affected his mind, actually played into their hands, by attempting to drive specie out of circulation, by instigating a series of royal edicts, culminating in that of February 27, 1720, which instituted a perquisition into all houses where it might be suspected that coin or precious metals were being secretly amassed beyond a certain low margin. Nothing like this step can be found except the proceedings on similar lines of certain governments during the war of 1914-1918, which had, at least, the excuse of dire necessity. The edict was widely enforced, arrests and punishments followed, but while the very obstinate merely observed greater precaution, a very frequent result was that paper was hoarded instead of gold or silver. On March 11 specie payments were forbidden.

When, therefore, on May 22 a general run began, the mere physical impossibility of dealing with the crowd necessitated the employment of troops. There were many and immediate

collisions, resulting in loss of life, and rendering the hopeless situation one of absolute despair. In vain, the enactment relating to the reduction of the value of notes and shares was repealed within a week of its issue. The lesson that is so plain and well known to us to-day had then to be learned — that credit can be relatively easily created, but once damaged, cannot be recreated until some distinguishing difference, however superficial, is made in the name or constitution or even the mere situation of the individual or corporate body upon which must hang the great mass of public sentiment that credit is.

As the repeal of the edict of May 21 produced no effect unless it was to exaggerate the crisis by giving a dubious legality to the tender of the thoroughly discredited notes, a return to specie payments was inevitable. This, however, was so ill-managed that further collisions between the troops and the public occurred in June and July. From being an idol of national and even international acclamation, Law was at once made the scapegoat for ill-balanced autocracy and hopeless inefficiency. The mere mob in the street who cannot, in the mass, have had any stake at issue, and only suffered from the temporary inconvenience of an ill-regulated circulation, as they had frequently suffered before, when Law, his Bank and the Scheme had never been dreamed of, were, as ever, ready enough to make a scapegoat of any one who came to hand. The bourgeois classes were really damaged by the sudden interruption of trade, dismayed by the fall of so great and encouraging a figure in the field of business, and had also all those both-way regrets that belong to persons who are either left with depreciated paper on such occasions, or who have failed to make financial hay while the economic sun was shining. The group that had engineered his downfall liked him no better than they had done before.

The only persons for whom we can retain any respect are a few highly placed friends of his — the regent, the War Minister, Le Blanc, and others — who protected him from personal violence, kept him in hiding, placed his wife and children in safety, and this at considerable risk not only to their own reputations, but to their lives. They prudently masked their protection under his resignation of the comptroller-ship, and the necessity for preventing him from leaving the country, an excuse for putting him in a sort of open arrest, in care of two companies of Swiss Guards. He was given apartments in the Palais Royal and a nominal office on the Royal Council. Moreover, the less notable of his enemies, members of the anomalous Parliament of Paris, who had never forgiven him for his brushing aside of their veto on his power, showed an inopportune rancour and were arrested *en bloc* by a body of troops and exiled to Pontoise for six months.

Thus far autocracy, perhaps recognising the wrong it had done him, could go. But France was already passing beyond the possibility of a complete autocracy, even at that date. No king or council could replace Law in the position he had been forced to sacrifice, nor could even the Parliament be perpetually ignored. In December his departure from Paris was connived at, and with adventures as romantic as those that attended a similar but less fortunate journey undertaken by Louis XVI. two generations later, he succeeded in reaching Brussels. His last act was to refuse large sums of coin offered him by his friends, while his wife remained in Paris under the protection of the Duc de Vendôme, meticulously paying off bills for housekeeping expenses incurred. Thus the man who entered France with over £100,000 sterling left it with 800 louis in gold, returning the borrowed chaise in which he travelled. The whole of the property acquired by him and his brother (who was incarcerated in

the Bastille) was confiscated; even the annuities purchased on behalf of his wife were disallowed. He seems to have received irregular sums from his erstwhile protector, the regent, as he travelled about, dragging with him that uncommunicable importance that no human society can ever dissociate from one who has once made an indelible impression on the public mind. There seems to have been something in his physical appearance which was imposing, and much in his life that was admirable. The little which is certain is, that he escaped the most tragic fate that might have happened to him. The Admiral of the British Baltic Squadron conveyed him from Holland, where he had been obsequiously received by the best classes, including the Diplomatic Corps, after moving from one European capital to the other. He was presented to George I., and, in spite of the speedy massing of his enemies both in England and from France, was able, while precarious as to his private pocket, to rebut all charges brought against him, old and new. He received formal pardon for the duelling mishap on account of which he had originally left England. The suits brought against him, notably from France, he disposed of in a more summary manner, by setting forward counter-claims that showed with perfect justice, so far as can now be judged, a balance in his favour of over 1,000,000 livres plus shares. He offered to accept the £100,000 with which he entered France, but it does not appear that any conclusion was arrived at. He remained in England until 1724, when he went abroad and finally died in Venice on March 21, 1729, in poor circumstances, and apparently still gambling.

Such was the end of the man. His leaving France revealed one thing clearly enough — he was irreplaceable. The liquidation of the Mississippi Scheme is one of the most hopeless bumbles ever known, for although the amounts were large,

the centralisation had been so complete as to simplify dealing with the figures. Even worse than the lack of Law, was the lack of any one of the calibre of Walpole, who, at almost the same moment, was performing a similar operation for the wreck of the South Sea Company in England. It took some little time, and the spectacle of considerable rioting and an almost total stoppage of trade, to convince those in office that credit could neither be restored nor converted by cash payment. They therefore began to offer annuities of varying length — twenty-five years, forty years — and perpetual and current accounts, to get rid of at least 2,000,000,000 livres of the notes (an estimate which appears to include the gradual cash liquidation going on all the time). But the terms were so poor that the process still hung fire, and a further edict was issued, characteristic in tone and tenor, making various denominations of the notes only available for the purchase of the annuities; and to this was added a further command that after November 21, 1720, notes should be deprived of their character of legal tender. Bundles of them, in fact, survived for years after, with none but a curiosity value.

There remained the Company's shares. For every three of these, two new shares created out of the forfeited royal holdings were offered bearing a dividend of 360 livres, or for every one old share and a payment of 3000 livres, one of these new shares. From this it is evident that the old shares were only considered to be depreciated thirty-three and one third per cent., while the new were thus made worth 9000 livres. Following this, the original subscribers were required to deposit their shares, or, if they had parted with them, to purchase an equal number from the Company at 13,500 livres each. This caused a general scramble to get out of the country with any portable coin or bullion; many arrests were made, and even the king's secretary, with great impartiality and much to

his disgust, was committed to the Bastille, in spite of his protest that he had only followed a fashion set by the Court.

The total effect of these operations was to saddle France with an annual interest service of over 3,000,000,000 livres. It is extremely difficult to give any idea of what this meant, owing to the continual and deliberate variation of the coinage, but in the margin of Hudson Gurney's copy of Wood's "Life of Law" is pencilled the note "150 mns" (£150,000,000), which probably most readers will accept. Such a sum was obviously not to be raised, and the only means found adequate to the situation was the appointment of a commission with full powers, which seems to have attempted to consider, if not individually, at least class by class, the claims of the holders of Government stock, and also those of the Company's shares, according as they had acquired them, not omitting one classification which included those who could give no good explanation of their holding. These last were simply non-suited, claims of 500 louis and under were paid in full, and of the remaining 2,200,000,000 of Government stock, nearly 100,700,000 was confirmed at rates ranging from two to four per cent., but only about half the Company shares, and these at a dividend reduced to 100 livres the first year and 150 subsequently. Thus the annual interest charge was reduced to 56,000,000 livres, and the participators in the scheme found themselves in possession of a portion of their holdings varying from fifty to seventy-five per cent. of what the figures had once represented. The whole matter is, however, so complicated and obscure that it is difficult to form any idea of the differences in purchasing power that occurred over the five years from the founding of Law's Bank to the final adjustments of the commission. Law's biographer stoutly maintains that even after all losses are allowed for, France had progressed, enriched herself, and

owed much to Law. Certainly none of her subsequent misfortunes are directly traceable to the Mississippi Scheme, but rather to the surrender of the management of the revenue to the old gang of tax farmers, who carried it on to the Revolution. The Company's affairs followed the fortunes of France's first colonial empire to the sale of what is now known as Louisiana, and the loss of other portions during the struggle with England that filled the remainder of the century. For purposes of contrast, it may be remembered that the liquidation was effected by a staff of eight hundred clerks, and was conducted with such knavery that high officials were arrested, convicted, and sentenced to death, though this was commuted to exile or life imprisonment. In another direction, we must note the ironic fate of the Earl of Stair, the ambassador who had so urgently warned every one in France and England against Law, presumably because, being also a Scot, he knew clearly enough that the whole project was premature by over two centuries. His reward for being the most far-seeing and one of the honestest men of his time was twenty years of complete neglect and disgrace.

Parallel with, and imitating the Mississippi Scheme, runs that occurrence in England known as the South Sea Bubble. It is a curious reflection that the illegal act of the arbitrary Stuart kings made London, their ancient enemy, the greatest credit market in the world for just over two centuries. Yet such was the case, and so little was the fact realised that the first Stock Exchange crisis, the parent of all subsequent movements down to the narrow daily trend of prices of to-day, so studiously watched by skilled operators and shepherded by banks and other authorities, dates from an effort to return to what was considered the only true and safe path of financial integrity, namely, the punctual cash discharge of national debts. Here came the opportunity of the South Sea

Company. The way in which the project was bandied about between that Company, hitherto a perfectly harmless trading concern of the early chartered type then in vogue, the Bank of England, just a quarter of a century old, and the East India Company, is as instructive as it is amusing. The procedure was naïve. The moment was propitious. Along with divine right and all else that used to hedge a king, had gone a certain sense of order and dignity. Speculation rather than speculation accounts for the close connection between the leading politicians and the project of paying off the national debt. A sovereign by appointment of Parliament can never wield quite the same authority as he who rules by accident of birth. Hence the extraordinary looseness that pervaded the third decade of the eighteenth century, and gave Hogarth such an opportunity for his robust satire on the manners and morals of his day. From the very first, Walpole and Sunderland, Ministers, Aislabie, Chancellor, Secretaries of State, and members of both Houses were deeply implicated. No figure stands more clearly as a symbol of the time than Walpole. He was literally nobody: one of the new nobodies that were just rising to the surface in answer to the material demands of the colonial policies, that now, for the first time, seriously ruffled the ancient dynastic personal and autocratic atmosphere, proper to a royal court. Even among Elizabeth's and Charles' men there were still to be found genuine aristocrats prepared to risk their lives for principles, and quite unprepared to soil their hands with mercantile transactions. Among and around them a coarser, meaner breed was pressing upward from below, and of necessity. It is impossible to believe that any fine gentleman, taking his authority from Heaven, could have maintained England (literally England, for Great Britain did not then exist for practical purposes) in face of her actual situation

during those years. Her final disassociation from Europe was already complete. She was embarking on a century of struggle for that greater world overseas which was to make up to her for the loss of importance in Europe. The man to ride such a storm was Walpole, just as later in the same struggle it was to be Pitt. The word "common" still applied in his native county to indicate ordinariness, the opposite of high-mindedness, not to say spirituality, describes him. He had no heroics. When he accepted the post of Paymaster of the Forces instead of that of Chancellor of the Exchequer in the Government of the fateful year 1720, he subsequently explained that it was to avoid the quarrelsomeness of Lord Sunderland. "He would have done his best to throw me out of the window!" said the Norfolk baronet. It was not that he desired the punctilio of a duel. He had a reverence for the Cabinet, like a bad boy's for church. Not for him the parade of honour, but he did not wish to put fisticuffs before business. His great quality was that sound horse sense which ever since his day has been the best-loved characteristic of English ministers, and has belonged to two, at least, in the twentieth century. In direct descent from Walpole's utterances comes "Wait and see" in the mouth of an Asquith, and in those of a Baldwin, better still, no words, but a pipe.

Nor had he any scruples. He saw and denounced the nature of the South Sea Scheme from the first. He did not despise it; he simply saw through it. This did not prevent his subsequently profiting by the fluctuations of South Sea stock. It is even said that he got in at par, and got out at the highest price the boom afforded. Such conduct may have incurred envy, but hardly blame. It was in tune with the time. So hard does ancient authority die, that the men of the period were always ready to sell the new precarious commercial protestant England of which they were citizens.

England's great antagonists, the ousted "pretenders", father and son, had at least the air if not the virtues of great gentlemen, and all the vices proper to such. In contradistinction, Walpole had a sound head for finance and drink, legislation and corruption. He found bribery and peculation. He used them. He is typical of his time, and thus significant in the study of our subject. To perfect his portrait, which as a symbol of the age must not be unsympathetic, we may remember that he was a good landlord, a warm friend, a great amateur of the arts, generous and hospitable, so that of all the millions that passed through his hands nothing stuck to them; he died in debt.

Before we examine the South Sea Scheme in detail, we must set the scene. Ever since the Parliamentary wars, hardly out of memory, the overweening importance of London had become established. It was a new London, one in which royalty no longer resided, in which the ancient pride of craftsmanship had decayed: another new type, the merchant and politician, was paramount. Let us refresh our minds from Pepys, who saw it rebuilt, and Hogarth who inhabited it. At no time was it more intensely individualistic. With the incorporation of the Bank of England, all that was speculative centred around the new and astonishing possibilities. Why vegetate in landed stagnation, why toil at the bench, when this new means of rapid safe wealth, the buying and selling of money, or paper promises based on money, was to hand? The nation's indebtedness, marketable as bank stock or annuities, the glamour of the overseas unknown, Golconda and Eldorado, were equally incentive to speculation, now for the first time accessible as stocks or shares.

The system indicated by these words is of unknown antiquity. On what basis did the Argonauts sail with Jason, and the companions with Ulysses? There seems to be a

certain seafaring influence bearing upon the idea that carried with it responsibility as well as the prospect of profit. From time out of mind, craft have sailed and lands been worked or grazed as common stock, but until the date of the events we are now considering there had been no fairly regular market, or specialised dealers in such wares, made readily transferable on paper. The financial centre of London has remained stationary as that of Paris has not. The place round which the events of 1720 centred is still marked "'Change Alley", though the sooty classicism of its modern appearance gives little idea of the place it was then. It must be recollected that after the great fire, characteristically, London failed to get itself properly rebuilt. Wren was ready with a plan that anticipated Haussmann by nearly two centuries in spaciousness, and anticipated sheer beauty which we are still anticipating in vain. The London that got itself rebuilt was a place of narrow, twisting lanes, cobbled, with a kennel in mid-street, and open to the strong-elbowed Jack's-as-good-as-his-neighbour spirit of the English, to build, overhang, pull up, or disfigure in any way that private advantage dictated; there was nothing like the Place Vendôme. To get even a superficial idea of it, we must obliterate the Mansion House, King William Street and the Bank, which last alone has overspread a whole parish with its church. Even the Bank was not then housed in Threadneedle Street, but only came there fourteen years later. In such a series of back passages, about the Exchanges, lodged the new class of stockjobbers so opprobriously defined by Johnson. They hung about the celebrated coffeehouses that appear in the lampoons of the period, and for which we have no modern equivalent; narrow strips of sky may have been visible but no great quantity of air can have circulated, and that which there was had already been well breathed. Horse-drawn conveyances squeezed

through the larger thoroughfares and even managed to pass each other, with much swearing and management, but sanitation and public order did not exist in any sense that we now attach to the words, and many years later the committee of Lloyds begged to be allowed to pass a pipe for their "necessary" into the cesspool of the East India Company. These material details are important if we are to understand the stench, heat, alcohol-stimulated excitability that is the real key to the events of June, 1720, and renders them, for other reasons, curiously like the *cœval* crowd of Paris. Under their perukes or hoods, men and women had no standards of conduct and very few morals. The whole matter is deeply embedded in the political and dynastic history of the time, as Pope and Swift have denounced, Hogarth and Gay (who participated and lost his money in the Scheme) have depicted it.

Were it not for this almost physical consideration, the South Sea Scheme would be an easier affair to understand and even applaud. On paper, regarded with cool reflection, it amounted to nothing more than what we to-day are perfectly familiar with — a big post-war debt conversion scheme.

Besides the legacy of Stuart appropriations, there was the cost of the war by which William III. had established the Protestant, trading, colonial-minded England, inevitable parent of that we know to-day. But the establishment was very recent, and by no means secure. Money was wanted everywhere, and the very fighting services were miserably starved. The Stuarts had been spendthrift and autocratic taxmasters. If the Revolution was to hold good against them (and they were still expecting a Restoration, were yet to make another armed attempt at it) there must be some tangible evidence of a better type of government, by which men meant then, as now, less taxation. Here was the great

call for payment of the national debt of those days, swollen to the figure of £50,000,000, an unheard-of amount, on which the interest service, framed in annuities, amounted to seven, eight, and nine per cent. Sheer necessity had already forced the adoption of a partial and tentative scheme of Walpole's for reducing such ruinous rates to five per cent., and this by the assistance of cash borrowed from the Bank of England and the South Sea Company to pay off the more difficult stockholders.

These two institutions are typical of their day, and by accident had come to represent the two opposing political parties. The Bank of England took its political complexion from all those various elements that had come to be denominated Whig, a meaningless nickname given to the party then in power. It is said that an Englishman dearly loves a lord. It should be added that he hates being ruled. The party out of power felt that the monopoly gained by the new Bank was dangerously complete.

Among the complicated and mainly abortive provisions of the Treaty of Utrecht, which had been supposed to bring to an end the strife between England and France that was actually only beginning, had been the handing over of the South American slave trade to the English mercantile marine. The South Sea Company was permitted to exploit this, and it was inferred, in a manner which has fortunately disappeared from company prospectuses, that there were other vague but immense benefits attached. Not that much inference was needed, for the glamour of the Americas was still brilliant. The Company had a strong Tory or opposition colour, was a large holder of Government debt. Its stock stood at a premium.

Any one who supposes that politico-financial jobbery is a twentieth-century invention should read in detail the history

of the project placed before the House of Commons on January 22, 1720. Here was a chartered colonial corporation, offering to exchange its stock, already rising sharply as the result of well-spread "market information" of those days, pamphlet and coffeehouse talk, for ruinously rated Government debt, of which the service was by no means assured and which was not yet regarded as a fixed piece of national furniture, but as a temporary expedient due to political upheavals and international complications. The basis of the proposition stood firmly on the desire of the rising merchant nonconformist class for peace, Hanoverian Protestantism, and fewer taxes. Where the boom that followed departed from common sense and ordinary business was in the extravagance of the alleged future profits. We have to remember that the age was a romantic one. The actual South Sea idea is now said to have originated with Defoe, the author of "Robinson Crusoe." There is nothing so very improbable about the fact, but we need not look so far for the explanation of what followed. The whole machinery, banking, stockjobbing, colonial enterprise, was new. A similar scheme was at the height of its glory in France. We have seen in our own time remarkable effects produced by manipulation. There is no reason to be amused or shocked at our naïve great-grandfathers.

The dirty element lies in the corruption and shamelessness of the politicians and promoters, which compare most unfavourably with the clean-handedness of Law and the French. There at least we may comfort ourselves that few men nowadays have the opportunity, even if they have the will, to carry malfeasance so far. The Chancellor of the Exchequer was said to have purchased £27,000 of the stock while in charge of the bill. In April a further issue was made at 300 per cent. of £2,500,000 of fresh capital. Successive offers to

the holders of Government stock were made at the rising rate, for by July the price of the Company's issue had passed 1000. But more than this had happened. A new fashion had been set. The whole town — relatively small and concentrated, with no suburbs sanctified to different grades of income — scrambled in the booths or at the open tables in 'Change Alley. The list of obviously fraudulent projects, floated by any rascal who could rent a room or put up a sign, makes us laugh to-day. The real speculative element became alarmed. The South Sea directors, who had now persuaded the king to join the board, did not relish the half-humorous and wholly rascally imitation of them, by announcement of companies for the discovery of perpetual motion, or for “an undertaking of great advantage, but nobody to know what it is.” Incidentally, we are helped to see the distinction between real speculation and mere gaming. The South Sea Company had a genuine monopoly of value, was a Government agency, and might, in the hands of more experienced management, have done something to carry out all that was hoped of it. Among the flotations of the period, it brought into being the Royal Exchange Assurance and the London Assurance, both paying highly towards the extinction of the floating, unfunded debt for the privileges they enjoyed as chartered companies. There was no element in the mental make-up of the time, capable of using the machinery that had been established. One of the first things the directors did was to engineer an act suppressing the numerous attempts to make money that had sprung up in their wake. The effect was only temporarily to assist the standing of their own stock. The public was insufficiently educated. When one and another thoroughly bad company was extinguished by enactment, the disturbance to general credit was greater than any good done by the underlining of the difference between gen-

uine monopoly and mere bucket-shop antics. The South Sea stock began to fall. The directors had no heads for such a situation. They departed immediately, not merely from wise management, but from ordinary decent probity, announced dividends that they could not hope to pay. All to no purpose.

No greater tribute can be paid to Walpole than to examine his conduct, when called in to right the desperate situation. There is something about him which we may gladly claim as English. He lived before the great spiritual revival of the nineteenth century. His day was actually one of continual bodily danger, in which the minister of one régime might find himself, as the result of revolution, impeached for treason by another. Thus we need not quarrel with a man who had no morals but a healthy cynicism. He saw his contemporaries and their times as they actually were. Half the country was only too pleased to see the new, the very new, royal family, and nearly all the leading parliamentarians, involved in an affair which, from being bad business, was rapidly degenerating into a public scandal. The Speaker of the House of Commons of those days has left it as his opinion that "had the Pretender landed at the Tower, he might have rode to St. James' with very few hands held up against him." One Jacobite attempt was only five years behind, there was another to come. The strongest protection the Hanoverian family had was the impartiality with which men betrayed either party. This was the real speculative atmosphere, and Walpole was the man to ride this storm. He seems also to have been the one man with a grasp of the possibilities of accountancy, the real meaning of credit, and a knowledge of the machinery of transferring it. An immense gap separates him from the statesmen of the Middle Ages, even those of the Restoration. He undertook the reconstruction of the

defaulting Company, which had none of the age nor size of its French example, and which fortunately did not include the National Bank. It was, of course, not a legitimate bankruptcy. We have to adjust our exact ideas of stoppage of payments to the atmosphere of early Hanoverian London. The higher the price of South Sea stock could be pushed, the less of it had to be given in exchange for Government debt, and consequently the more profit the directors looked to make. The higher the dividend they promised, the greater the difference necessary between the price of their stock and that of the five per cent. earning issue they were purchasing, in order to permit of their making a profit. There is no sure evidence that any of them scanned the remote future with great care. The estimated profits from the slave monopoly are now held to have been grossly exaggerated. The change in public sentiment, and therefore in their credit, arose from the reaction produced by their own action in bringing about the legal extinction of so many of the weaker companies that had mimicked, one might almost say burlesqued them.

It was London's first great experience of a financial crisis. Nothing was known of the psychology of speculation. It is easy enough for us now to see that the disappearance of the paper wealth created by the launching of the York Buildings' Company — to name one of the more respectable flotations of the day, and one which enjoyed influential title and support — was bound to bring about sales of their own stock. Nor did any of the leaders of what was soon found to be a conspiracy, doubt that, by some device or other, the level of the quotation, preposterous as it was shown to be, could yet be maintained. The downward trend, however, revealed the fact that not only had individuals borrowed, or even acquired by less defensible means, money to buy South Sea stock that could no longer be sold to repay such indebtedness,



THE SOUTH SEA BUBBLE
From the Cartoon by Hogarth

but the Company itself had lent £11,000,000 on the security of holdings of its own capital. Innocent investors in other concerns, the Bank of England, for instance, were deeply affected. The actual fall ranged from 2000 on July 16, said to be the highest quotation, to 210. In August the directors were still asking £800 of Government annuity for 100 of their stock. This brought them into direct conflict with the allottees at this price, which compared very unfavourably with the figure of 375, at which the same transaction had been completed in May. There were also accusations that the allottees' signatures had been obtained on insufficient knowledge, but all may well ask what knowledge the type of public which had been taking up the highly inflated issues can have been expected to have of the procedure, simplified as it was, in the utter inexperience of those days. Now came the evil effects of the quasi-official character of the Company and prominence of the promoters. The large disaffected portion of the nation was ready enough to see included in one wave of unpopularity, the Government, from the king, absent in Hanover, his true and preferred home, where his scandalous court had profited by fraudulent allotments of South Sea stock, to the minor officials outside the cabinet, who were implicated. The scandal became national if not international, and the fate of the Mississippi Company in France did nothing to allay the general panic.

Walpole framed his first scheme on September 19, and in the very structure of it we see that bracing cynicism of his, that may have struck hardly on the impoverished and indignant shareholders, but which must have been the very tonic the town needed, after nine months of windy optimism. He showed no favour, and his treatment of the Bank of England has a grim impartiality that manifests his clear sense and the extraordinary power with which the weakness and helpless-

ness, not to say the venality of his contemporaries, invested him.

When the South Sea directors had made their original offer to the Government, they had embodied in it a premium of £3,500,000 for the privileges they asked. The Bank of England had sufficient support politically to force the throwing open of the opportunity to public competition, and had bid £5,000,000 for the same privilege. The South Sea Company finally succeeded in obtaining preference by offering £7,500,000. It is therefore obvious that the Bank had been perfectly prepared to do what the Company had done, and there is no reason to credit those who, for political and other reasons, would have preferred to see the Bank entrusted with the conversion, with any greater moral restraint, or higher ideal of public service. The Bank had, however, every reason to complain that the quotation of their own stock had suffered severely by the general collapse, and can certainly have entertained no very friendly spirit toward the defaulting Company. Walpole's first scheme by which the Bank was to assist the Company was never ratified, and the governors were justified by the subsequent fall of the Company's stock to 210, though this was still higher than the figure at which their own could be purchased. The notion that the presence of the king might restore confidence was equally ineffectual in holding up the slumping quotation, and although he returned to England in November, the price continued to fall to 135. On December 8 public opinion had reached such a pitch that parliamentary intervention was necessary.

Once again Walpole constructed a scheme by which the Bank of England and the East India Company were each to take over £9,000,000 of the Company's stock. But neither the temper of the time, nor the habit of mind of the public

of those days, nor the peculiar semi-political character of the wire-pulling by which such monopolies were granted, would permit of anything so straightforward and businesslike. Although it passed into law, there was no means of forcing the execution of this scheme upon the Bank and East India Company, and the way was left open for what the noisiest and least scrupulous demanded, and saw an excellent opportunity of obtaining, namely, political revenge. The South Sea Company were ordered to furnish their accounts, an inquiry was instituted into the purchases of stock by servants of the Crown since September, 1719, and the directors were forbidden to leave the country. The whole affair then blew up. The cashier was found to be missing, the books were destroyed. No concealment was now possible and no moderation was observed. The members of the House of Commons who had held directorships were imprisoned, the Crown officers who had dabbled were arrested, the Chancellor who had been so deeply implicated was permitted to resign, pending his trial.

Finally, a third scheme was devised and put into execution. The first item was one upon which Walpole had insisted from the moment he had heard of the South Sea Company's original proposal twelve months previously. The premium to be paid by the Company to secure the privileges desired was remitted to the extent of £5,000,000. A further £2,000,000, making nearly the whole amount offered, was subsequently rescinded. Walpole had no illusion about the folly of naming this sum, and was thoroughly modern in his view. It was exactly parallel with the sums occasionally paid to vendors in modern flotations, that burden a company with a preliminary indebtedness that it never overcomes.

Owing to the nature of the Company's transactions, it was impossible to enforce its claims against its debtors. The

£11,000,000 it had lent on the security of its own stock were secured by payment of ten per cent. of the amount due and surrender of the holding. Half of the margin had to be abandoned, the loss being £7,000,000 on this item alone. The original holders of the Government annuities, upon a revaluation of the stock, received about forty per cent. of their previous revenue, a first settlement being made at thirty-three and one third per cent. and increased later. Here the political agitation of the public came in very usefully. There was no notion of limited liability, although the principle was indirectly recognised. The indiscriminate handing out of allotments, many of which consisted of fictitious stock and were credited as paid, made it possible to attack the directors, more especially those who had sold out and got away with the proceeds. Their estates were seized, amounting to over £2,000,000, and even after provision for their maintenance, large sums were sequestered and made the settlement possible.

Not that the body of the creditor stockholders was satisfied. We must remember that they were entirely unused to the whole procedure. That mere paper wealth should increase ten times over in less than six months opened new vistas, and distorted out of all proportion the previously humble ideas of making money, which were confined to hard work, ownership of property, and the Eastern attitude toward the precious metals learned from the Bible. When that same paper wealth fell to only twice its original dimensions, not only money, but a new world disappeared. Public opinion was even more violent after the settlement than before. It was necessary to read the Riot Act, last resort of despair, in England, in order to clear the corridors of the House of Commons. Walpole, whose ability was two centuries ahead of his time, and who now wielded a power

beyond the vaguest dreams of any minister or financial authority of our day, was pursued by attacks of personal spite in which there was neither rhyme nor reason. His cynicism, invaluable as it had been in making him absolutely impartial, hurt the tender feelings of those who had bad consciences as well as bad debts. And his own political record was as bad as his financial sense was good. For this we must blame the time as much as the man. After two generations of civil strife, that varied from the most treacherous intrigues to open warfare, all sense of responsibility had disappeared. The salient fact about the Jacobite conspirators, Walpole's adversaries and contemporaries, was that they betrayed each other more often and more effectually than they betrayed the House of Hanover. It is interesting to wonder what Walpole would have done if faced by an effective attempt at a second Stuart restoration. The attacks from which he suffered, therefore, although in fact unjust, were not unlikely. There is no sign, in sober fact, that in the eventual settlement of the South Sea Company's affairs he favoured either the Company on the one hand or the Bank of England on the other. He was accused of both faults in turn, and his motives were frankly indicated and no doubt were extremely plausible. But the essential Walpole, who, like Palmerston after him, could do all sorts of slack, eccentric, or even dubious things, and then pull up, at the last minute, sane in spite of all extravagance, sober in spite of enormous potations, was a really national figure, English if ever a man was. He had much more than common sense and good bookkeeping on his side. He was the man who, at the height of the commotion that threatened not only the Exchequer, but the dynasty, had to be fetched from Houghton Hall, where he was gardening and arranging his pictures. That is the type that Englishmen will always love and confidently follow. It is the

Drake type. The story of Drake declining to stop his game of bowls when the Armada was sighted may be as fictitious as it sounds, and is often said to be. But it is very lifelike. That precise admixture of low morals and high courage, dare-devil risk and long-headed calculation is the result of climate, amalgam of races, and who knows what else — some other vivifying and informing quality that keeps us all partially mystic towards it.

Now that the centuries have rolled over his life and times, we can afford to learn something from Walpole, so much of him from which we could and ought to learn nothing having been solved away. He maintained credit and stable political conditions when every one else was either criminally implicated, or ready to endanger the whole future of the country for the sake of personal or political revenge. His disposition of the tangled and rotten financial situation resulting from our first credit crisis was permanent. The remains of the South Sea inflation descended to form part of our Consols. The company he reconstructed lived on for a century, and its building was finally the scene of temporary occupation by Lloyds Insurance. This body had just been burnt out of their offices in the Royal Exchange in January, 1838, and by this date the South Sea Company was so moribund that it could lease its great hall and some subsidiary apartments, where nothing ever was done. Lloyds found even this accommodation all too small. *Sic transit.*

Law was of a different mould from Walpole. He was the visionary, not the administrator. Here again, without giving too grave importance to things temporal, we may allow something for Scottish race and upbringing.

Walpole was as English as a man can be, local, provincial, coming from one of the remote counties, with all the limitations of a squire and all the aspirations of a snob. A com-

parison between the two men brings us almost to laughter. It is one of the perhaps unconscious but perfect ironies of fate that has placed one man at the head and forefront of the first great burst of financial speculation, and the other at the end, one the prophet and promoter, the other the liquidator or sexton. Two more opposite types could not be found for our purpose. They represent the human spirit taking wing, and also the human creature immovably rooted to the earth. Neither of them gained by his gigantic efforts anything but national opprobrium. Both died in debt. Law created something which the men of his day were quite incapable of using wisely and well. Walpole, who saw and said this before any one else, was the means of perpetuating the credit institutions of a great country that might have been wrecked or indefinitely retarded. And it must be remembered that they were neither of them mere theorists. Law believed in something that has only come into its own in our day, two centuries later. Walpole believed in nothing, and might move among us now with credit, if he could improve his manners. Such men have been great speculators and furtherers of speculation in its best sense.

These were the events that set on foot what we now understand as financial speculation, in its strict sense of providing a body of stocks and shares marketable at definite markets under certain regulations.

Superficially it looks as though the Stock Exchange, as it first called itself in 1773, sprang into being fully fledged. A more considered judgment will probably determine that all the elements that go to make a stock exchange were present, severally developed by the slowly realised needs of men, and the attempt to satisfy them, but that so considerable an advance as that represented by the opening of a market in credit — for this is what a stock exchange most truly means

— could not be made by an individual or even by a trading company. It was not until national need brought with it parliamentary sanction that anything approaching a market could be evolved. This was accelerated by the fact that at the opening of the eighteenth century, the van of human development was composed of the nations surrounding the North Sea basin, the prevalent form of government varying from absolute monarchy to a growingly constitutional form, which, however, remained personal, instead of the abstract forms to be found around the Mediterranean, just beginning to be superseded as the centre of activity. The monarch was therefore the largest borrower. In England the connection between taxation and representation now took tangible form. The expenses of the services were met by what has always been called a national, not a royal debt. Dealings in this became regular, and as national indebtedness steadily increased, no lack of the new marketable commodity was to be feared.

The stock of industrial concerns, with the exceptions we shall notice, had not arrived at a sufficient development to admit of their being dealt in, and the stock of the great colonial companies, East India, South Sea, and Hudson's Bay, were not industrial, as we now understand the term, but were all connected in one way or another with the still cherished dream of paying off the national debt, as much as with providing capital for trade, for colonies were then, in fact, "Crown colonies" in a more exact sense than that in which the name has come down to us, actual possessions of the sovereign, acquired in his name, sometimes at his (or her) initiative, and named accordingly. The earliest seems to have been the East India Company, which by the patent of Elizabeth in 1600 was constituted with a capital of £72,000 in £50 shares. These were formed into a "joint stock" in 1613; James

granted a new patent enlarging the capital to £1,500,000. In 1655 Cromwell suppressed the monopoly, but had to revive it three years later with a nominal capital of £739,782, of which £369,891 was paid up. Charles II. made the shares up to £100 in 1676, by adding the profits to them, and they enjoyed sufficient success to raise their price to £300 in 1680. Success, as always, attracted rivalry or evasion of privilege, so that in 1683 they obtained a new charter to enforce their monopoly, and the price of the shares varied from £360 to £500. This, however, lapsed in 1693, through non-payment of duty imposed on them, but was renewed subject to three years' notice. Rivalry caused the setting up of the New East India Company against them in 1698, but in 1702 the two were united. The character of these transactions can be seen by the fact that the new Company advanced £2,000,000 at eight per cent. to the Government, and in 1708 the united companies lent the Government a further £1,200,000 free of interest, thus making the total capital productive of five per cent., reduced in 1730 to four per cent. This last operation, plus a premium of £200,000, purchased the extension of their privileges to 1766, an arrangement superseded by a loan to Government of £1,000,000 in 1744 at three per cent., which obtained for them a grant until 1783. The growing embarrassment of national affairs did not allow this period to run out, for in 1749, the interest on the whole Government loan was reduced to three per cent., for which they were allowed to issue annuities which amounted to nearly £3,000,000. They were again put on three years' notice subject to repayment by Government of £4,200,000, with arrears of interest.

Such were the complications of their position and the continual political influence to which quasi-state trading subjected them. Fluctuations in the dividend meanwhile reacted on the stock, driving it as low as 114, but in 1764

serious troubles in their territory caused a further fall and brought the whole management of the Company under investigation, which seems to have been beneficial, the dividend rising to ten per cent. and the stock to over £250. Their annual rent for their privileges was then fixed at £400,000 per annum, and they obtained renewals of their charter until in 1773 they had to ask for relief, and were, in fact, lent £1,400,000, which they speedily repaid. This seems to have been sufficient, for the dividend was augmented; it was found difficult to keep it at eight per cent., however, and frequent interchanges of regulation and cross entry with the Government enabled them to raise additional capital, in 1786 £800,000 at 155, in 1789 £1,000,000 at 174, and in 1793 £1,000,000 at 200.

This brief summary of the aspect of India stock from the investors' point of view during the eighteenth century, necessarily abridged and regarded from one standpoint only, is valuable as it is typical. The Stock Exchange list at the close of the century consisted in some dozen of different categories of Government debt, either funded into fixed loans, or floating in the form of bills that the Navy, Victualling and Transport authorities (which in the lists of the period always appear together), Exchequer, Treasury, Ordnance, were allowed to issue. Next to these came the stocks of the great chartered companies such as the East India Company, the reconstituted South Sea Company, and the Bank of England, all of them trading concerns under various degrees of Government regulation, and from whom the Government could never long keep their hands, from different motives which have been or will be noticed. The East India Company is a good example, standing midway between State loans proper and industrial shares, direct parent of all that has made the modern civilised world possible. Nor is this

example chosen out of a mistaken local patriotism. It so happens that the history of the London Stock Exchange began before any such institution in North America, or Northern Europe, suffered none of the interruptions that have overtaken the Paris Bourse, outgrew Amsterdam. It is the nearest thing that we can see to a surviving lineal descendant of the Rialto, and without it we shall have difficulty in imagining how modern Wall Street, possibly destined to supersede it, could have attained its present position. The importance of the history of that century lies in the creation of a new form of property and the learning of new habits of mind.

The remaining choice on the Stock Exchange list at the end of the century consisted in two insurance offices, both of them legacies of the South Sea furore — the Royal Exchange, created for marine operations, with a capital of £1,500,000, developed, after a year, into life and fire assurance with a further £500,000, of which total only half was called for; and the London Assurance, instituted for marine and fire business, with a capital of £1,000,000 in shares of £25, half paid. The charters of both were obtained by a premium to the Government of £300,000 each, of which half was remitted; they contain the quaint proviso that no person possessing stock in either Company shall purchase any in the other. Why Hudson's Bay Company is not beside the East India and the South Sea does not appear.

There were also the West and East India Docks with a capital of £1,200,000 and £400,000 respectively, but these really belong to a different portion of our survey, as do the Imperial Loans (subsidies for the aid of the Austrian army in various wars, funded in 1795, of £7,500,000). As a curiosity, there remained from the seventeenth century the Tontine annuities, a species of joint annuity reverting to the survivors of

the subscribers and falling in with the demise of the last. From these facts the connection between the two processes sometimes differentiated as investment and speculation is clear, while the distinction to be drawn between the two is extremely obscure. The raising of capital for any enterprise whatever, except purely individual trading, is seen to be founded actually on confiscation and to have been developed by perpetual excess of expenditure over revenue. To State loans proper have been added semi-trading concerns borrowing for capital, including subsidies to foreign powers and insurance businesses.

The next step to general purchase and sale of units of capital in trading companies takes us farther afield, into another period.

The jobbers in 'Change Alley survived very well. After the South Sea upheaval there was still plenty of trouble in store and a continual extension in the credit structure on which England was ever increasingly dependent. They began to produce a type of their own of which one or two examples are worthy of notice. At the height of the South Sea mania, no man got out more opportunely than a certain Thomas Guy, and to get out is the acme of the art of speculation. To-day one will be told — and it was just as true two centuries ago — that any fool can buy, but it takes a wise man to sell. Thomas was such a one. He had learned in a hard school. Students of Pepys will remember the permanent difficulty that haunted the clerk to the Navy Board, that everlasting problem of the sailors of the fleet, that proudest boast of England's glory, who had not been paid, could not be paid, and who would not go away. Again and again the perplexed diarist records the shifts to which he was driven to defeat the victors of so many desperate battles. One of them was the issue of tickets, supposed to

represent the sum owing. With no other section of the population of those days could such a device have had any success. The sailors took the tickets. Even to-day a sort of gallant improvidence clings to those who go down to the sea in ships, and when the pig-tailed lower-deck ratings found that the tickets were not money, they let them go with that stoic philosophy that has by no means disappeared. Guy bought them at a laughable discount. Applying the proceeds judiciously to marketable securities he succeeded in dying worth the then respectable sum of £500,000, of which nearly half went to the founding of that celebrated London Hospital that bears his name. The interesting problem is to discover what sort of a hospital would have resulted had the sailors been honestly paid.

From an entirely opposite direction, speculation received an unwitting, even an unwilling impetus. Sir John Barnard was no eater in low chophouses, no trafficker in sailors' pay tickets. He was one of those merchant princes who make up the best type of London citizen, and knew it. He long represented the city in Parliament. He looked down upon the entire faculty of speculation, denounced it, fought Walpole, and through a decade and a half maintained a proposition more characteristic of the nineteenth century than of the eighteenth, a gradual reduction of the rate of interest on the Funds. He was unbribeable and refused the post of Chancellor of the Exchequer, and cared nothing for the opposition of the great chartered corporations, large holders of Government stock. No wonder he could form no alliance with Walpole. Eventually he succeeded in carrying through his proposal, thus doing much to open the way for the subsequent widening of marketable securities of an industrial nature, which could offer a higher yield. Even without Sir John's stimulating opposition, we may believe that the

market in securities was now an established institution, and one which arose Phoenix-like from the bankruptcies of the minor troubles that followed the South Sea year, the reflection of the Dutch and Hanseatic failures of 1763, although by this time £10,000,000 of English stock was held by foreigners. Then came the Indian War of 1764, which fell so heavily on the great Company. The restoration of their prosperity only precipitated the crash of 1772, when Scotland was the centre of a collapse in which were involved the Bank of Douglas Heron & Co., the Bank of Ayr, and a certain Fordyce from Aberdeen, who had descended upon London, as Law had, half a century earlier, with both brains and audacity that bewildered and for long led the southern mind. The situation was so serious that the aid of Dutch, Swedish, and Russian banks had to be implored. The importance of this date is that it marks a vastly increased self-consciousness among the brokers. Their practice had been confirmed by usage and probably indirectly supported by the industrial developments making themselves felt in a rare interval of peace. Then in 1773 they actually "subscribed sixpence a piece and christened the new house with punch." This was the new Jonathan's coffeehouse, and thus was the name set up, the Stock Exchange.

Probably the time was ripe. An odour of rascality invited the contempt that Sir John Barnard earlier, and the celebrated Wilkes now lavished on them, characteristically consigning them all to perdition. Pocketbooks disappeared from the persons of those who jostled in the disorganised crowd in the low, smoky rooms. The Jewish element had persisted and furnished many a "character." There was Gideon, the great broker, who declined to amend the price of an annuity to a customer who feigned ill health. "You may cough," he exclaimed, "but it shan't save you six months'

purchase." The name of Manasseh Lopez, a great operator in the lotteries of the middle of the century, shows the Spanish sojourn of his exiled race. He was fined £1000 for infringement of the regulations by which he had made £50,000. Mixed up with such practices was the everlasting bribery, members of Parliament receiving money, bankers and stockbrokers lottery tickets or parcels of stock to float. Very salutary, therefore, as a check upon solvency if not honesty, must have been the setting up of a blackboard for the posting of defaulters, a result of the next crisis, that of 1782. There followed the institution of transfers, as separate instruments. Then in 1799, owing to an attempt to corner the shares in the property the brokers used and raised the price of admission, the general body formed a syndicate, bought Mendoza's boxing hall in Capel Court, and built the first Stock Exchange.

Thus was the institution named and housed.

How dependent the eighteenth century had grown upon the new activity can be seen as well by a survey of the English national debt as anywhere.

The first Act that recognised the nation's indebtedness was that of 1701, which dealt with a figure of £16,000,000, which was only arrived at as a composition with some creditors, and by the falling in of annuities granted to others.

By 1714 over £50,000,000 were owing, a sum which was slightly reduced subsequently. There followed the South Sea Bubble, which, in the long run, added over £3,000,000. The sinking fund of the period paid off £8,000,000, but by 1749 the total outstanding was £78,000,000. Peace gave some opportunity for retrenchment through reducing the interest on the stocks, the price of which had risen. Thus a fall to £75,000,000 had occurred when the Seven Years' War broke out and carried the figure to just under £140,000,000

in 1763. This was reduced to £132,000,000 at the outbreak of the War of American Independence, which brought the total to £268,000,000. It passed £300,000,000 at the close of the century, and that amount had been doubled by 1807.

This brings us to the end of the first phase of financial speculation proper, that in which public debt formed the bulk of marketable securities, and during which there existed still the assumption that it would be paid off, and even schemes to that end. Witness of this condition of things is to be found in the expressed intention of the members of the House of Commons in 1717 "to apply themselves with all possible diligence and attention, to the great and necessary work of reducing by degrees this heavy burthen, as the most effectual means of preserving to the public funds a real and certain security."

This neo-classic language was partly prompted by the consciousness of overt corruption permeating the whole of public life, and of the fact that, seven years before, no less than £35,000,000 of public money could not be accounted for. But that it does not mean an acquiescence in the principle of perpetual debt, is shown by the establishment of the Sinking Fund, and even more by Walpole's pronouncement that a nation with a public debt of £100,000,000 was doomed. How one wishes that it were possible to have his opinion on the finance of 1917 and after!

So much for England. The parallel process in France is less instructive on account of the complete break in the chain of authority. The very same convulsion ended the careers of those medieval institutions, the Bank of Venice, the Bank of St. George of Genoa, and the Sixteenth Century Bank of Amsterdam. Sweden we hear little of after 1782. Thus the close of the eighteenth century was also the close of the epoch of the small, insular, self-centred credit market in London.

The different character of the next phase we shall find very marked. In 1807 the amount of foreign holdings of British stock had risen to under £18,000,000, and was even then less than three per cent. of the total, or, in other words, the London money market was not yet thoroughly international. The termination of the period we have been surveying was dramatic. War shut down on civilised Europe, not so completely (there were means of evading belligerents and even of making money out of lending to your enemy), but just as widely as in 1914. The Europe that reëmerged was a different Europe. And there was another thing that marked the end of a certain way of life. We have seen that the Far East, South America, and many islands and coasts had long been administered and exploited by great colonial companies. But there was already on the east coast of a portion of North America a separate nation, or embryo congeries of nations, with a national debt of its own, no past, but an immense future.

In 1775 Congress authorised the emission of what were described as "bills of credit" — and known as Continental money — treasury bills, expressed in Spanish dollars, to the extent of 3,000,000 of that coin guaranteed by the twelve colonies revolting. Thus we find that in this case also the financial speculation of the new nation was founded upon the attempt to satisfy national needs. The only marketable paper of the young republic was of its own creation. In four years Congress was obliged to determine to limit its issue to \$2,000,000,000.

As may be imagined, such a quantity of paper afloat in a country the development of which had hardly begun, in the widest sense of the word, caused such depreciation that many of the needs of the War of Independence had to be satisfied by requisition on the several States between which and the

central authority accounts were kept. In 1783 Congress pledged the faith of the United States for the payment of the sums owing, but it was not until 1790 that any act passed the legislature. In that year it was decreed that all import duties, less \$600,000 a year for Government expenses, should be devoted to payment of interest on the loans that had been floated outside the country (notably France), or any conversion of them, while the internal borrowings were funded on the basis of two thirds of the amount subscribed, at six per cent. interest and up to eight per cent. redemption annually, of principal and interest at the Government's discretion; then the remaining third was to be subject to the same rates, the operation of which was deferred until 1800.

The arrangement for the funding of individual State loans was by a subscription of \$21,500,000, four ninths of each holding bearing six per cent. interest, two ninths six per cent. to commence in 1800, but the optional eight per cent. redemption of principal and interest was open on both these categories. The remaining one third bore an immediate three per cent., but redemption was to be made at par when provision was available for the purpose.

Nothing can give a more graphic idea of the progress of the United States during the hundred and thirty years that have since elapsed than the result. The loan fell flat. The citizens of those days were too dispersed, remote, and possibly not sufficiently confident of their new government to take it up. It was necessary to make them a further and, some may think, a plainer offer. The non-subscribing creditors of the Government were invited to register their demands at the Treasury, to be subject to the rates of interest and redemption offered for the loan. So little effect had this that in 1794 and 1795 legislation had to limit the time during which these operations might remain available. At the same time

the foreign debt was funded on the same scale as the domestic, but at rates half per cent. higher, and with interest payable quarterly, with redemption open to the Government's pleasure; among other advantages, this relegated the interest payments to an internal transaction.

In 1797 it was found necessary to borrow \$800,000 from the Bank of the United States at six per cent. repayable in five years, a provision found impossible of fulfilment. In 1799 a loan of over \$6,000,000 at eight per cent. redeemable after 1808 was raised, and in 1803 one of \$11,250,000 at six per cent., being rather more than four fifths of the purchase price of Louisiana; this was irredeemable for fifteen years.

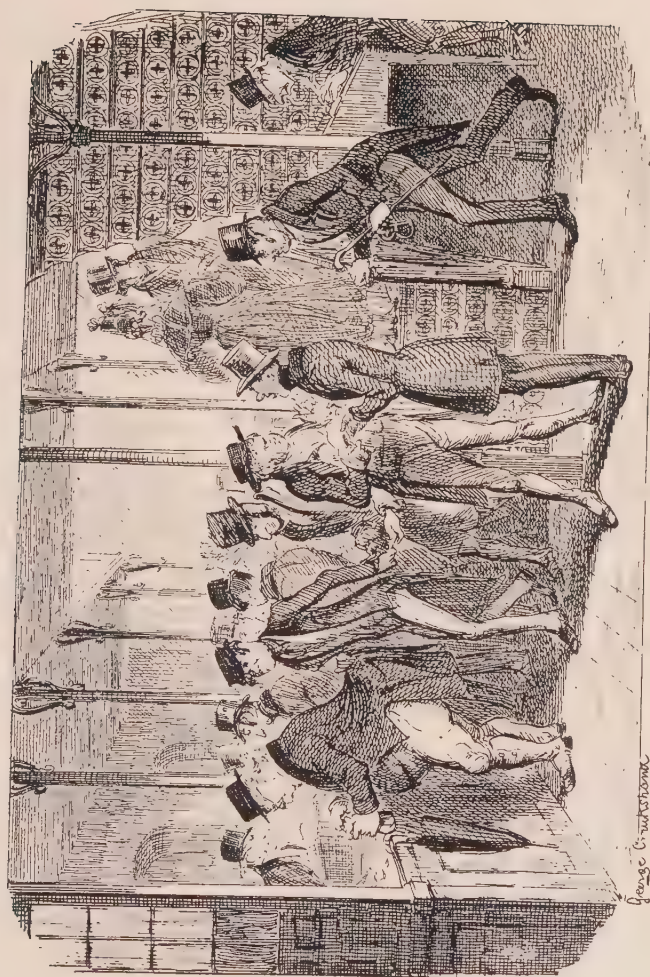
So little were the economic possibilities of the Continent explored, that this sum was raised in London, where the interest was payable, with the option of exchanging for certificates on which interest was payable quarterly in America.

Thus it would appear that the New World was well started on the economic road which the Old had marked out. And if anything is needed to complete the likeness, it is the provision that all sales of lands in Western territory should be appropriated to a sinking fund. Thus in the New World, as much as in the Old, men had not abandoned the idea of paying off public engagements, but already the new note of internationalism is sounded by the arrangements made for the payments of interest in London, where they were made by Barings on Wednesday, Thursday, and Saturday between the hours of ten and two, and also in Amsterdam. Moreover, in addition to public debt, the shares of the Bank of the United States were quoted in London, and we are told "many persons prefer this stock not only on account of the probability of an increase of dividend, but as they may receive their dividends in London on signing a requisition to that effect, without any risk of deduction for bad bills", surely the earliest example of

the now familiar "dividend request." There is also to be found a note — "The capital of the Bank is \$10,000,000, divided into 25,000 shares of \$400. The concern is established under judicious regulations, and has hitherto made considerable profits."

We opened our survey of the first century of financial speculation proper under the auspices of a Scottish visionary and an English squire. We may fittingly close it with the words of one who was as much a visionary as the first, and as true a type of provincial England of his day as the latter, and who had a more remarkable career than either.

Thomas Paine stands as a portent at the end of the century in which he was born, and to the history of which he made such startling contributions, not least to its essays on economics. That was a day of magnificent theorising and of vital growth from the poorest and most desperate base or substratum of contemporary society, which broke every theory set up upon it, as surely as a green sapling will displace or fracture a solid stone overlaying it. Paine includes in his extraordinary personality the theorising tendencies of the philosophers of the day, and the upward urge of the awakening landless democracy. He was a great speculator of the highest type. From sheer natural genius (for he was born to a humble enough station, in a remote country town, and had neither the solid grounding in the humanities that Walpole received, nor anything like the instinctive adventurousness of Law) he played a leading part in the disruption of society in two hemispheres, the setting up of two republics, and, in the intervals of inventing iron bridges half a century too soon and begging mankind to return to the primitive purity of small holding and craftsmanship a century too late, he found time to write, with that prophetic forcefulness of which he remains one of the greatest masters in the language, on economics.



George Cruikshank

DIVIDEND DAY AT THE BANK

From George Cruikshank's "Comic Almanack." By permission of Messrs.
Chatto and Windus, London

The two particular pamphlets of his that are worthy of notice in connection with our subject, forming as they do a tiny fraction of that wordy war that was his life, are "The Decline and Fall of the English System of Finance" and "Agrarian Justice." They are typical of a good deal more than Paine. In them lives for ever the eighteenth-century preoccupation with encyclopædias and geometry, its materialism, and inevitable counterbalancing revolt, its pathetic reasonableness, and, as it recedes from us, its mellow antiquity.

Pitt, in the English House of Commons, had used of France — the catastrophic revulsions of which country were already creating in slow and isolated England the terror that Napoleon was to make articulate — the words: "on the verge, nay, even in the very gulph of bankruptcy." Paine, with that combative insistence that only reaches its fullest flower in those of Quaker upbringing, turned the phrase against the hated minister, and applied it to England.

He was wrong. We may look back from the present mountainous public debt carried by all civilised countries, with some complacence at Paine's elaborate argument, based on arithmetical progression, to the conclusion that England could not stagger along for another twenty years. Even in the most public-spirited minds, personal feelings enter, and the wish is father to the thought. He who had carried his poor savings to his leader Washington's empty pay chest, and gave to the political prisoners the proceeds of the pamphlets of which he was a "best seller", may be forgiven if he found it hard that his adversary, not England, but a reactionary English Government, should survive. He was wrong. We can afford to smile at his mathematics, and his personal preference for an extremely simple way of life blinded him to the possibilities of increased production by mechanical means,

increased consumption by a higher standard of living. But his vision was better than his figures. He characterised credit as “Suspicion Asleep.” We may go far to find a better definition. When he declared that any funding system was but anticipation, he stated the whole case for speculation. He meant it for disparagement, but he ever disparaged what *was*. He lived in the very anticipation he ridiculed. Like all good speculators, he gave away the considerable sums he made by prophecy in words, and refused £3000 for the models of the iron bridges others were to build fifty years after he died. His schemes for establishing a pension fund for mankind were even longer of realisation. Nothing like them was put on any statute book until the English Budget of 1910, which contained provisions curiously similar to those he suggested as the basis of his scheme. This is the speculator’s true domain. To anticipate what may be, to be able to deal largely with figures, to spread the result so that it is available to all who care to use it, this is the only financial speculation worth serious consideration, and the kind which alone is likely to survive the ever-shortening patience of mankind with the small useless cares and unnecessary drudgery that are the real curse inherited from Eden.

PART IV

THE GOLDEN AGE

FROM 1774 to 1815 England was hardly ever at peace. During the same period the United States fought two wars, and France made a military effort which embraced the whole of Europe between the Baltic and the Mediterranean, and which in importance ranks between the break-up of the Roman Empire and the redistribution of frontiers of 1918. Until a few years ago, little was said except of the military dynastic incidents of the period. A history such as Alison's treats of little else. Its economic aspects are, however, no less interesting. In England the National Debt more than doubled itself, and reached a point which it did not exceed for ninety years. So well furnished, however, was England with the means for coping with such a situation, so remarkable was her geographical isolation, so strong the discipline of her people, that it is doubtful if the large amount of credit thus handled comes within our definition of speculation. The United States is a case apart, on account of its situation and possibilities; there remains the European situation proper.

The fact, of which the importance has only relatively lately been appreciated, is that Napoleon was no less active in the economic and political field than in the military. The dramatic suddenness of his strokes created the very atmosphere of speculation. In addition to the planning of roads and the codification of laws, he created an international economic policy, and laid the foundation stone of the Paris

Bourse. He made for himself, among many others, one adversary who was destined to be hardly less famous, and far more solidly perpetuated both in actual descendants and in achievement. Yet perhaps it is as much due to Napoleon's contempt for the small territorial personages whom he swept so ruthlessly aside as to anything, that finance is so international as it is to-day. The speculative history of the Napoleonic era has its counterpart in the rise of the Rothschilds.

The influence of the Jews in modern financial speculation is one of those debatable elements about which it is difficult to be definite — in the same way that it is difficult to fix exactly the influence of the opening of the Suez Canal, the production and absorption of gold, or the even more remote connection between sun spots and harvests. The case of the Rothschilds is peculiar. They are not among the unnamed and persecuted tribe which we have observed being hunted from England into Spain, out of Spain into Holland, and thence coming again to England. Among such were Goldsmid and Gideon, who figured largely in the early decade of the nineteenth century. But Rothschilds soon took a more distinctive position. They may be said to have reintroduced international loans. The early bankers, "Lombards", Spinoli, Fugger, and corporate societies made loans without distinction of race or tongue, but they were pre-national rather than international, because nationality did not begin to be clearly observable until the fifteenth century, and was only relatively strict at the beginning of the eighteenth. Thence onward it was a remarkable thing for any foreign government to borrow in London or Paris, and the assistance which Amsterdam gave to Prussia in the payment in her indemnity to Napoleon was a noteworthy exception. Underneath these new boundaries to speculation, the Jews carried on a subterranean trade

by means of their racial solidarity, language, and still more distinct mentality. The Rothschilds, however, soon lifted international flotation to another level, and it is principally from their rise that the modern liquidity of government finance dates. They were favoured by the opportunities created by the Napoleonic era, and their peculiar skill in money-changing, which overcame the limitations of nationality as expressed in coin.

In eighteenth-century Frankfort, as in any other German town, the Jew's race and religion were made a burden to him. As the old religious prejudices died, it must be feared that the motives that kept persecution alive were often jealousy of his ability and envy of his success. There existed in Frankfort, as elsewhere, the Judengasse, Ghetto, Jewry — a narrow and cramped street into which the Jewish colony were herded, in which they were shut, and outside of which they suffered from open insult in the street, if not from actual violence. "Jew, do your duty", cried the Christian gutter-snipe, and the Jew, if he were wise, doffed his cap. If he wished to avoid such an order, he kept in his Judengasse as far as possible.

According to ancient custom, dating from a time when figures were unknown to a large portion of the population, the houses of the street were distinguished by signs. At one which bore a red shield (Rothschild) there lived Meyer Amschel, a Jew who, like so many of his kind, if not a prisoner yet on a sort of perpetual parole, was divorced from handicraft and agriculture and perhaps had also an extra Semitic care for and ability in the precious metals. Thus he gradually acquired a "collection of pieces", and it was thus, as a merchant of curiosities rather than as anything we should now recognise as a banker, that he first caught the fancy of the erstwhile tutor and contemporary factotum of the German

princeling who came to be, after the apparently necessary shuffling of privileges and incantation of the Almanach de Gotha, Elector of Hesse-Cassel.

The days of chivalry were long over, and what should a princeling do at the end of the eighteenth century but make as much money as he could. War was in the air, but the Elector knew better than to fight. Keeping the speculative possibilities strictly before him, he leased his army here and there, but more especially to England, who used his troops in the unpopular and costly North American campaign. Transactions passed, and it was natural enough that when Napoleon burst alarmingly upon the world of princelings, the Elector sought the help of his Frankfort acquaintance. A good deal of legend has grown up around the incident. The more picturesque version shows the Elector as a benign old gentleman, handing over to an obsequious Rothschild quantities of unpacked plate for safe custody during the Napoleonic invasion. Like so many others, the picture is one of man's effort to feel that he is somewhat like that which he ought to be. The facts that have come to light show that the Elector was rapidly degenerating from the status of the chivalrous knight besieged by the tyrant to that of an English country gentleman, without the manners, who goes abroad, leaving his deeds with his banker. The chests of which he tried safely to bestow twenty but succeeded in lodging, on account of their excessive size, only four with Rothschild, contained political and financial papers, evidence as to loans contracted and treaties signed. The house of the red shield in the Judengasse was an old one, and had had, at some time or other, a complicated system of connected cellars. Here Meyer Amschel was able to conceal this small portion of his noble client's property. The basis of the more shapely legend which has gradually grown up around such simple

panic precautions belongs to the arduous struggle that lasted for half a generation, and extends from the first brilliant sorties of beleaguered France all through the almost world-wide dominion of the First Empire, right away to the entry of the allies into Paris. Whether by good luck or, quite possibly, by the uncanny prescience of his race, Rothschild backed the allies. He had, of course, some guidance from the fact that, had he done otherwise, his reception and subsequent treatment by the Emperor of the French would have been more than doubtful. He had something to lose by the extinction of German powers and invasion of the Rhine territories. But his acumen went farther than that.

There were growing up in the cramped quarters of the Judengasse five bright-eyed little boys. The French commissioners who conducted the search of the old house, without discovering the ramifications of the cellar, found them sharing a garret in which they had hardly elbow room. They did not need it long. The father had plans for them. Directly they were old enough they were embarked on their careers, with the very scantiest of education, for they had been excluded from the existing schools, wrote indifferently, and preserved to the end of their lives a characteristic accent in the use of the various languages they wielded with such effect. Amschel, the eldest, partly perhaps from this fact, but even more because his father saw in him the plodder, the man of stability rather than brilliance, remained in the city of his birth. Nathan, rightly judged to be the most able, was sent to Manchester, from which he was not long in moving to London and founding the great house in St. Swithin's Lane. James eventually went to Paris, the others founded branches of the parent house in Vienna and Naples. It is said that the old man, on his deathbed, divided Europe among them. The truth is,

that long before his death he had placed them, with an extremely shrewd forecast of the fortunes of the kingdoms of this world, where they could help each other best. Thus, surely enough, the London and Paris branches have been the ones to achieve greatness, Frankfort and Vienna have lessened in importance, and of Naples we hear no more. The reality behind the great stroke that connects the name of Rothschild with that of the Elector was the lodgment, by Nathan, of so much of the princeling's wealth in good English Consols. There seems to have been no doubt in the Rothschild mind that Napoleon would never overrun England.

Thus was established a further step in speculation. The banking which has arisen from Meyer Amschel's collection of coin is of a distinctive type. It is not national, State, or State-controlled; it is not local banking, such as we are familiar with in the systems of North America and Western Europe; it concerns itself chiefly with the issue of loans that have gradually changed their complexion from those begot of a belligerent necessity, to those needed for public utilities. Other houses, only slightly less known, have arisen beside it, but none with quite its picturesque history or widespread affinities. Barings, of similar if earlier origin, however, is almost as well known, and close behind these came more specialised international banks or agents, connected with the public finance, the commercial bill trade, and the currency requirements of various of the less-developed States of Europe and other continents. The whole class of finance to which they belong stands a little apart from the banking systems of the more prominent industrialised countries. For a long while, in fact almost up to 1914, such houses catered for the foreign currency obligations or resources of British overseas business, a sphere which has now been invaded by the "Big Five" English banks, the larger American banks,

and one or two whose headquarters are in Germany, France, and Italy, all of markedly national character. On the other hand, Rothschilds and similar international banks or issue houses are rightly so called, as they have never made any attempt to capture the main deposit banking field, now the commonplace of great modern communities, by means of a system of branches, tapping the small depositor and the retail business direct. Their only branches are in the larger centres in which they find a demand for their special services.

Nathan Meyer Rothschild, the best known of his house, is a figure so considerable in the premier market of financial speculation — that in which national loans are dealt with by the international means — that during the century since he first impressed himself upon the public consciousness, he has come to be a figure even more legendary than his father, whose chief notoriety rests upon the incident that connects him with the Elector of Cassel. The son, on the other hand, in the freer air of London, has left far more impressive memorials. Many writers have repeated the stories which surround his career. He is said to have had the news of Waterloo before the British Government, not perhaps a wonderful feat, as the official dispatch had necessarily to pass by the official channels. When he died, during a business visit to the Continent, his death is said to have been known by the message attached to a carrier pigeon, the simple words "*il est mort*", the verification of which produced a decline in Stock Exchange activity that lasted for years. But the importance of his figure surely is that he bridges the gulf between the medieval ghetto in which he spent childhood and adolescence, and the modern world of accurate bookkeeping and liquid credit. From the former he retained a sombre character, continual apprehension of assassination. To the latter he contributed that extraordi-

nary prescience and power of concentration. The interesting question is whether, without him, his compeers and followers, we should ever have had such facilities as the Suez Canal and the Dawes Plan, or again, whether we should ever have needed them. He was one of the architects of that great opening-up and interconnection of the world which was partly caused, and partly fulfilled in our own day at Versailles and elsewhere.

We have epitomised the History of Financial Speculation in the eighteenth century, or, more exactly, from the foundation of the State banks to the dawn of the international era, under Paine's dictum, that "Credit is Suspicion Asleep." During the financial nineteenth century, making that period cover the events between 1815 and 1901, suspicion was largely asleep, but subject to recurrent nightmares or convulsions that frequently recalled the worst days of the Bubble panics, and were only differentiated from them by the increased public consciousness, and the bolder and more experienced steps taken to restore confidence. In fact, it would almost seem that governments began to recognise the necessity for supporting and protecting the speculator, though in England at least his name was usually anathema, and the supposed object of the legislation and debate that followed every crisis was more often described as the "legitimate investor", or by some equivalent phrase.

As the nineteenth century is most distinctively the English century, that during which the United Kingdom of Great Britain, profiting by its immune position, its handsome start in industrial organisation, and also, in some degree, by the innate probity of the rising non-conformist (chiefly Quaker) financial class, it is in the history of that country, and more especially the history of London financial institutions, that we shall find our most enlightening evidence.

The military struggle with which the nineteenth century opened in England, if less severe than those of 1914-1918, had been more protracted. The reaction, when peace came, was no less violent, while devices to anticipate and control its effect were just as much more naïve and primitive as can be measured by the advance in national self-consciousness during almost exactly one hundred years. Specie payments had been abandoned during twenty-four years. The amount of Government indebtedness in the market had enormously increased. The effect of a whole generation of war had been no less stimulating to speculation in commodity than during our own time. It may be wondered if currency difficulties alone would not have been sufficient to create a considerable disturbance. But there was in addition to all this, the psychology of the new century, the economic history of which was to be most strongly marked by that series of crises known as "credit cycles." It is not within the scope of this work to offer some new theory as to their origin and apparent inevitability. They appear in relation to our subject, as the natural outcome of immensely increased facilities, in the hands of men only slightly more public-spirited and intelligent than their forefathers, who had perforce to learn by experience the recurrent result of the lifting of so many ancient restraints, the abolition of so many privileges. America was far away and deeply preoccupied with her own affairs. England and France, the main protagonists of the economic side of the struggle of the century-end, here present to us opposite developments under their close proximity and identical period. In England, dynasty was eventually fixed — by how narrow and improbable circumstance the readers of the history of the time are now breathlessly aware — in the person of a woman destined to remain on the throne for sixty years. Now, lawyers have a theory that in any action the legal representa-

tive whose client is a woman starts with a tactical advantage. If this is psychologically correct, then for two thirds of the century the opponents of the dynastic settlement in England were at a great disadvantage, and during that period a different conformation moulded the exteriors of English national life, so that, at the conclusion, dynastic affairs no longer played any very important part. In France, on the other hand, during seventy years the material organisation of the State suffered changes between two empires, a kingdom, and three republics. Now, although the sort of convulsion caused by war is favourable to speculation, that which results from political theorising makes merely for uncertainty of authority and hence of credit, which is the necessary basis for speculation on any large scale. Moreover, a large portion of the soil of France had passed by this time into the possession of small cultivators. So that, while on paper still a very rich country whose wealth is very well distributed, actually France is much less aptly organised for financial speculation.

Thus arises the contrast, that while the handling of credit instruments and speculative machinery is more widely developed in Great Britain, yet the financial history of the kingdom contains far more frequent and serious commotions, while that of France has been marked by greater stability and far less general consequences arising from credit upheavals, and the habitual use of speculation remains more in the hands of a small specialised class.

The first considerable domestic crisis of the London Stock Exchange, apart from conditions incidental to the war period, occurred in 1825, and its prime cause was the new application of steam to motive power. Duguid records that in 1824 there were 156 companies engaged in this experiment, with an issued capital of £48,000,000 of which £34,000,000 were paid up. During the boom that then intervened, 624

companies asked for £379,000,000, and when the collapse had run its course 283 companies remained, with £150,000,000 of stock issued and £48,000,000 subscribed. Of 67 companies no trace remained. The figures are slightly varied by different writers, above all in their arrangement. But none of them disguise the seriousness of the new phenomena. Panics there had been before, from 1720 onward. The difference was that by 1825 England had come to be so constituted that panics could no longer be confined to one class and its hangers-on, centering in London. Things had changed, and paradoxically, the blatant nationalism of the time was already having international effect. Yet in spite of the gravity of the situation and the urgency of preventing its recurrence, the troubles of this period were a mere prelude to a series of such events, that did not diminish in importance for seventy years.

The century naturally falls into divisions, of which the first precedes the reign of Victoria, which followed close upon a tumultuously fought battle for civil liberty and a considerable enlargement of the national consciousness. In France the Bourbons still ruled and the United States were situated east of the Mississippi and possessed half-a-dozen banking establishments. The impression one gets from reading the literature of economics of the period is that of a society which was somewhat dizzily readjusting itself to a new state of things. There were men alive who could remember the tallies at the Exchequer Office, wooden staves or stocks (from which word some authorities derive our modern name for mass amount issues, as distinct from denominated shares) notched to show the sums lent by the holder to the Government. Naturally the thing which impressed all minds deeply, and often disagreeably, was the size to which credit transactions had grown. A Mr. Wilkinson at least, who set

out in 1815 to write a treatise on the law relating to public funds, found the labour too much for his health, leisure, and proper attention to his professional duties, and did not finish it until 1839, cheered, one must believe, by the steady if slow decline in the British national debt. It is about this time that one can perceive the foundation of that belief in three per cent. Consols which is one of the marked characteristics of the period. Learned judges of the Chancery Court even distinguished between the 3 per cents., the consolidation of which dated even then a century back, and the other Government loans that were subsequently to be amalgamated into the premier British security. The first French loan was floated in London in 1815, marking an extension of the market, for hitherto there existed only imperial annuities on which British taxes had to supply interest, the more willingly because the debt had been incurred during that long alliance between English and Austrian interests which differentiated the eighteenth century from the seventeenth. In fact, in 1730 a proposed German loan had been prohibited in London. Now, however, Prussian, Spanish, and Neapolitan loans followed under the ægis of Rothschild or others, and deals were done in Russian and Danish, and so successfully that a "foreign" Stock Exchange was for some years a distinct offshoot from the parent body and was eventually absorbed by it. The frequent buying and selling of shares, as distinct from the funded stock of British or other Government loans or Government-controlled undertakings, was first noticeable about this period. The Continental Gas Company apparently issued £10 shares at a premium of £2 each, while the Equitable Loan Bank made an issue at £5. 10s. 0d. premium, both of which are noteworthy.

Various companies were engaged in public borrowing in order to carry out canal projects, so soon to be superseded by

the railways, and one erected Vauxhall Bridge across the Thames. Around and about such transactions raged an endless and involved forensic warfare. The original proceeding necessary for the transfer of stock or the claiming of interest, personal attendance at the various offices of the Bank of England or South Sea House, was all very well while London retained its overwhelming eighteenth-century importance, but as the first signs of the development of the industrial North appeared, it became urgent to expedite procedure. Hence the gradually evolved and at length legally confirmed instruments providing a means of sure and rapid transfer and evidence of ownership, that fill the law reports of those days. At the same period an analogous process was taking place regarding the handling of French *rentes* at the Paris Treasury. Rothschild, as one might expect, was the prime mover in getting these dividends paid in London at a fixed rate instead of leaving open the then precarious matter of negotiating what was potentially a foreign bill to obtain the interest. One of the curiosities of the period is the Carlist loan floated by Baron de Haber at Portsmouth in 1834, of which, however, the bonds were issued in Amsterdam, an ironic domicile for a pretender to the Spanish throne. There was also, in 1833, a Greek loan "partly guaranteed" by Great Britain, that has a Byronic flavour of lost romance. In South America, Brazil, Buenos Aires, Guatemala, and Columbia and Mexico were already borrowing. As regards interest arrangements outside the Rothschild issues, French procedure resembled English, the main Government issues being inscribed stocks, dividends being payable by personal application. Dutch and Danish treasuries had adopted bearer bonds with coupons, Russia had agents in London.

We have seen that the list of investments available to the general public in 1807 was a brief one, and almost entirely

concerned with issues of Government stock, and undertakings sanctioned by Government, or arising, like the early insurance societies, from Government action. The meagre choice could, however, be already described as "official", having been taken under the control of the Committee of the Stock Exchange in 1803. In 1811 the number of British Funds quoted had reached twenty, and in 1815 the total number of quotations was thirty. At the same period a similar compilation issued on the Paris Bourse, which in 1789 was made up of seventeen, now contained twenty items, and that of Berlin had eleven. The London list is curiously reminiscent of the early form which the other organ, the forerunner of Lloyds list, exhibited, being a sheet of general information, quoting foreign exchange rates, the price of coals, etc. At the Peace of 1816 the first general listing of foreign loans may be observed in those of France, Prussia, Russia, Austria, and Spain. American canals, curiously, formed a feature of this period, and there followed Irish funds and various undertakings to do with transport, bridges, and docks, and then the Surrey Iron Railway. The first signs of the market in public utilities appear. Business had long been done in the New River Company, which was now followed by other waterworks, while the inclusion of new insurance societies reinforced the two anciently quoted.

Obviously the pace was too great to last. No less than £25,000,000 subscribed to the more shaky of these foreign loans on the London Stock Exchange never received a dividend. It was estimated that during the first quarter of the century no less than £100,000,000 went out of the country. It cannot be wondered that a serious collapse followed such misdirected energy. Yet so high was the vitality of the country that, in spite of bad harvests and restriction in the very means of life, the extension of the new market continued

through the 'thirties. Many of the most solid of the English banks that have gone to make the present “Big Five” date from the year 1834. Hard on their heels came the consolidation of the tentative experiments that had been going on for half a century, in the possibilities of steam traction. The new facility was avidly taken up and companies started in every direction. If the first crisis, that of 1824 and 1825, was mainly traceable to what we should now call “post-war” atmosphere, and not unlike our own “reparations” difficulties, the next, that of 1833, was the counterpart of our inflation period. We must now glance at the difficulties with which the speculative transactions of the first period of the nineteenth century met.

It is a curious and sometimes forgotten fact that the growth of the market in negotiable securities in England was by no means smooth and unchequered. Between the post-war crisis of 1825 and the next serious credit stringency in 1836, the membership of the Stock Exchange had actually decreased. This was almost certainly not due to some unique cause, but among the many that may have been cited for it, the nature of the first big extension of the market to foreign Government loans cannot have been without its effect. From South America to Greece the conduct of the contracting nations was equally unsatisfactory. Argentina defaulted in 1833, while the smaller states, Columbia and Guatemala, involved their creditors in sixty years of negotiation and litigation. It is in this connection that we first hear of the Council of Foreign Bondholders. The original Greek loan was not firmly established as what is now called an “investment”, as distinguished from a “speculation”, until the 'seventies. Consols hardened. Although by no means so high or so steady in price as they subsequently became, we can discern about this period the effect of the very different

esteem in which issues made by England, notably, and next in the category, by France, Russia, and the United States, were held.

With regard to many European issues, however, we cannot but feel that, if objectionable practices still linger in the outskirts of the Stock Exchange, the publicity and regulation now in force do at least draw a line between the obviously unsound and the reasonably seaworthy — for nothing can save the best thought-of security from the chances and changes that are as far beyond the control of any individual mortal as the weather that he must encounter on an Atlantic crossing. The 'thirties of the nineteenth century were days of great extremes. A loan might appear under the auspices of such names as Rothschild and Baring, and yet be manipulated by the smaller fry that hung on to the great house with a naïve blackguardism that we cannot find equalled nowadays in the more obscure of bucket-shop operations. To-day there are, we may reasonably hope, not many people in Britain or North America who fall victims to the mere indiscriminate advertising of the real swindler, the man who has nothing or only worthless stuff to sell, and who is simply taking money under false pretences. The further category, that of the greedy, foolish, or ignorant small investor, who willingly buys in markets of which he knows nothing, upon the advice of those who have nothing to lose by bad augury, or upon the simple rule of getting the highest immediate yield, is more difficult to legislate for. It is a question of public policy which cannot be easily answered, whether the fool is not best parted from his money at the earliest possible moment. It is conceivably the only means of teaching him a lesson in morals as well as economics, and the difficulty of protecting him has been expressed by Roosevelt — "All we can ask of Government, is to see that the cards are not

stacked." Certainly it seems that any further measure of protection must go in the direction of deliberate State control of investment, for which most nations are at present totally unprepared. It is not only that the general public of civilised nations is as yet but indifferently educated in such matters, but further, that it is doubtful if we can at present find an adequate executive body sufficiently public-spirited and far-seeing to carry out such duties. The atmosphere of a hundred years ago was, however, very remote from such questions. The staggering thing about the first Greek loan and the subsequent lending operations undertaken in connection with the dynastic question in Spain and Portugal, is the way in which filibustering expeditions were allowed to be organised, equipped, and actually launched against countries with which Great Britain was not at war, the prime motive in which activity was the unloading of insufficiently secured paper upon the investing public. Now there have always been, and may be for many years yet, swindles like that of a certain M'Gregor, who not only succeeded in getting floated a £200,000 loan for the purpose of setting up a new colony upon a portion of the Mosquito Coast, euphemistically re-christened "Poyais", but actually induced people to sail from Leith with their wives and families. The expedition met with the same fate as the far more earnestly tragic Darien Expedition of nearly a century and a half before. Yet it must be remembered that even then America was remote and little known. And there seems more than a century between us and the generation which could fit out the expedition to assist the newly-conscious nationalism of Greece. The glorious but tattered standard of Freedom cuts up into very draughty breeches. Over £1,500,000 were subscribed and wasted in Hellenic mismanagement and speculation. But meanwhile, whether on account of the growing

paralysis of the Turk or the justice of the Greek cause, the young nation was born, or rather reborn, and those who had the patience and the remarkable physical qualities needed for survival, were able, in 1874, after fifty years, to receive an offer which, if it bore but little relation to the original subscription, was at least a recognition of the fact that progress depends on the sanctity of the bargain. Portugal and Spain, however, had, even at that date, none of the obscurity of America and none of the adventitious glamour of the South Seas or of Greece. It seems, therefore, most remarkable that with regard to the attempt of the claimant Don Pedro upon the throne of Portugal, it is said that money was provided by the under-employed brokers of the London Stock Exchange to finance his expedition, and other sums for the familiar practice of puffing the Portuguese loan in London. The prospect held out was that the reigning Dom Miguel would not, but that the claimant both would, and could pay the interest on the existing debt. Oporto fell before the expedition, that was largely English in personnel and backing, and on the top of this £800,000 of stock was launched upon the London market, and subsequently a further £2,000,000. The attempt of the Carlists upon the throne of Spain was also supported by an irregular and unauthorised force recruited in London. It was unsuccessful, but the real object was achieved in the setting up of a considerable fluctuation of Peninsular stocks in the market. The Rothschild house had already suffered by their devotion to the Bourbon cause, and the Polignac loan was said to have involved them in a loss of thirty per cent. But in the general collapse of the foreign market that followed the Portuguese and Spanish adventures, every class of investors suffered. Nothing is more remarkable than the open-handed way in which the poorer Englishman or Scotsman of that day was willing to loan his

money abroad, nor is it easy to ascribe a sufficient reason. Ignorance and avidity are certainly there, and it must be remembered that the period was a great international one. Napoleon had swept aside so many barriers of race and territorial privilege. At his fall all the world had met in Paris or Vienna. And also, there was no very considerable field for investment at home. That was all to come. In fact, it was from the very year of the panic in foreign loans that the English banks seriously launched themselves as joint-stock enterprises.

In addition to banks, insurance offices now entered the market. The Royal Exchange and the London Assurance were among the earliest marketable shares open to the investor, long before the organisation of that which we now know as the London Stock Exchange. There is also mention of a Union Insurance as having been founded in 1714. The difficulties in the growth of this market were not purely those arising from financial consideration. There is a curious reluctance noticeable among the legal body to recognise and serve life insurance projects, in most European countries, until well into the nineteenth century. Moreover, mutual societies hardly concern us, as the speculation in which they engage is not primarily a financial one. However, in the last decade of the eighteenth century, the Phoenix, Pelican, Norwich Union, and Salop were established. Insurance, like private banking, was a sporadic growth, and seems to have sprung up naturally in the provinces without waiting for the impetus of London. The "Sun" was a very early example. The Eagle was founded in 1807, but in 1820 there were still only twenty joint-stock offices. The boom of 1824 added considerably to the number, and many well-known names — the Alliance, founded by Rothschild, the Clerical Medical, and General, Crown, Guardian, Manchester, Law Life, Standard,

and Yorkshire belong to this period, while during the decade that followed, Liverpool, London, and Globe opened.

The crisis that supervened, that of 1837, is the first markedly international one, in which Wall Street suffered in proportion to the centres of the Old World. Pratt has given us an eloquent picture of early Wall Street, of the issue from the Hall of Congress of the bonds designed to pay for the war debt, of the group of brokers who met "beneath a button-wood" tree, and of the clients of the Tontine Coffeehouse. It did not take long for the members of such informal meetings to construct for themselves the necessary machinery for the marketing of the first public and other borrowings. Starting a clear hundred years later than London, the spirit of New York, aided by who knows what obscure influences, climate, novelty, the tremendous call of a civilisation that had to be translated from the inherent insularity of a British colony to the lucid continentalism of the new nation, began to make itself felt. By 1817 — only forty years later than London — it had its formal association of brokers, its scale of commission. In 1801 a Mr. Benjamin issued a list containing the four categories of United States' stock that remained over from the conversions of the Continental money of 1774, three banks ("of the United States", "of North America", and "of New York") and three insurance offices (the New York, the Columbia, and the United). Those days were not without their troubles. Only three years before, in 1814, British troops captured Washington and created a situation similar to that which the Jacobite invasion of England of three quarters of a century earlier, produced in London. It was a panic of *force majeure* fostered by the comparative weakness of the organisation of the new States, where a crushing load of debt bore upon young and ill-organised production, and the printing of notes, or the restric-



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WALL STREET, 1816, WITH MARGINS SHOWING THE
COMPOSITION OF THE STREET

tion of navigation, seemed preferable to schemes of necessary taxation, or the stimulation of the right imports. Yet a further crisis followed in 1818, in which currency difficulties played a large part. It would seem that every civilised nation has to cut its financial wisdom teeth upon the bitter experiences of depreciated paper and arbitrary attempts to control the financial elements, that are no less natural forces than earth, air, fire, and water. Moreover, the expiry of the first charter of the Bank of the United States had opened the way to the creation of the first State banks, which were no more born perfect in wisdom than any similar institutions. And even the supremacy of New York was not finally confirmed. It was not until 1825 that the ancient primacy of Philadelphia, where hitherto the speculative element had also met at the Merchants' Coffeehouse, ceased. The old Bank of the United States was not wound up until 1841, when certain of its assets passed into the name of Girard, perpetuated to this day. Thus the first truly international crisis was that of 1837. In England the main cause was possibly the spread of joint-stock flotation. In the United States its causes were more primitive — in a sense, more excusable. England and France had had their warning. In the United States, a continent was clamouring to be exploited. Railways and canals had been prematurely constructed, and land changed hands at prices which it did not reach again during the century. In the main, the fundamental cause was the same, the opening of new markets to those who were incapable of using them to advantage. In America there were also bad harvests and the confusion of the currency, while in England the credit machinery available was incapable of sustaining the demands for new capital.

In the meanwhile one of the principal markets of English speculation had been gradually arriving. Various begin-

nings had been made in railway construction and finance during the 'thirties. In no such considerable amenity of modern life has chance played such an enormous part. Railway transport owed nothing to the stimulus of the Napoleonic War, as its nearest parallel, air transport, owes to the efforts of 1914-1918. Nor did it arise naturally out of the general application of machinery to mass production. It had had half a century of tentative experiment. War, finance, industry had passed it by. More attention had been devoted to well-organised and fast coaching (the picturesque "old coaching days" of the Christmas card and the "good old times" type of novel) and to canals after railway construction had actually begun, than before. The weight of opinion massed against it was something of which we can form little idea. England was already differentiated from the Continent by the fact that land was held either by territorial magnates or by cultivators on lease. The peasant type had disappeared. There was no possibility, therefore, of laying out a railway system, as was subsequently done, notably in Russia and the United States, and more or less in other places, on a basis of the greatest traffic service at the least cost. The first consideration was the local opposition. The towns were no better than the country. Many successfully diverted the proposed rails and their own livelihood to neighbouring places. Vast sums were paid for expropriation. The Duke of Wellington, occupying a position without rival then or now, gave it as his opinion that the human being would not stand the air pressure created by speeds in excess of sixteen miles an hour. But worse happened. At an experimental display given near Manchester, in order to afford practical demonstration to members of Parliament, a Mr. Huskisson, a prominent progressive, inadvertently stepped in front of an engine and was so injured that he died.

The moral effect was immense. To the Bible-reading anti-French England of those days, such was the necessary fate of those who entertained ideas not to be found in Holy Writ. It is therefore all to the credit of the speculative element then present in England that in spite of such a situation the new facility won its way.

But there was already arising a figure as considerable, in its speculative aspect, as any to be seen in England since the early eighteenth century, the first since Walpole, of purely English descent, to play so prominent a part in financial speculation. George Hudson was born to be, what he was subsequently called, the Railway King. He was a Yorkshireman, of the same age as the century, and apprenticed to a draper. In his twenty-eighth year he inherited £30,000, and invested it in his own local North Midland Railway. He could hardly do otherwise. Government funds had steadied, joint-stock banking was neither a wide nor well-known market, and was already dominated by a quasi-national banking system and encumbered with solid habit, if not with legislation. The insurance market was in its infancy, the industrial, for the purpose of a speculatively minded young man, non-existent. He did, it is true, play a part in the formation of the York Banking Company and the Sunderland Canal, but how little are these side issues remembered. He appeared as launching the York and West Riding Railway with a capital of £500,000, and in 1841 succeeded in inducing the Great North of England to extend to Berwick, and personally guaranteed a six per cent. dividend. He was one of the promoters of the clearing system which overcame the aboriginal method of making passengers get out at the station of one railway in order to get in again at another. In 1842 he became chairman of the Midland with its £5,000,000 capital, and in 1844 was found characteristically opposing Govern-

ment supervision of railways. In the year 1845 his subscriptions to rail flotations were £300,000, which shows that he had made good use of the legacy that had come to him twelve years before. He had been for some time a considerable figure in civic life at York, and his operations had already necessitated a residence in London, but it was for Sunderland that he subsequently entered Parliament, defeating an anti-corn-law leaguer who had the support of Cobden and Bright. The *Times* was so impressed by his victory that a special train, assisted by horse conveyance where necessary (to bridge the gaps in railway construction over the journey of 305 miles), was arranged, and actually carried the news in eight hours. The year 1846 marks the heyday of his own career and of railway speculation. In that year capital expenditure in construction is said to have amounted to £132,000,000, placing the market in the corresponding shares easily second in importance to that in Government issues. The state of things was naturally too much for the heads of Hudson and his contemporaries. The following year witnessed a fall in railway securities and one of the major crises of the century, one which, moreover, was not traceable to foreign affairs or war. Hudson had performed wonders, in many directions, but the more inquisitive mentality of the slump discovered that at the amalgamation of the two Newcastle lines he had created out of his own imagination 14,000 unauthorised shares and retained 10,000 for his own advantage, upon which he is supposed to have subsequently made £145,000. Further, when called in to help the struggling Eastern Counties line, which had no coal or woollen industry to stimulate its traffics, and had not at that date the present immense working-class suburbs near its terminus, he had spent no less than £300,000 from its capital account in paying dividends. Whether he was assisted in such depreda-

tions by accomplices, or whether the absence of modern notions of audit and publicity were sufficient shield, does not appear, and for twelve months after panic had set in he was able to maintain a bold front, until in 1849 rumour became so insistent, and the widespread losses so severe, that committees of investigation were appointed, and he was forced to resign from the boards of the Eastern counties, Midland, Yorkshire and Berwick, and York and North Midland. The reports made upon his conduct even then did not lead to criminal prosecution, but confined themselves to the statement that he owed the companies money. He countered by offering an arrangement to pay certain sums by instalments, and went so far as to make a personal statement in Parliament, but was heard in silence, perhaps the heaviest penalty that can be inflicted on a person of sensibility. Hudson, however, was not that. The portraits of him which exist, in fact, do not warrant the caricature, if such it is, that Dickens drew of him, as Merdle, in "Little Dorrit." He was a stocky figure, full-faced and whiskered, inherently unremarkable. Like so many men of the 'thirties, life was all too easy for him. He was the true speculator of a type less early and primitive than his great forerunners. He had neither Law's nor Paterson's vision, nor the cynic scruples of Walpole. Without such activities as his, bad as well as good, railway development must have been infinitely retarded. How and why he did some of the things that, a hundred years later, he would either have been prevented from doing or have been adequately punished for, we shall never know. But he was, to an extraordinary extent, the child of his age. The figure that most resembles him is that national "John Bull" that Tenniel developed for *Punch*, to stand as a concrete symbol of a civilisation, a country, and a century. We may hazard the guess that for fully twenty years Hudson

was intoxicated, not with the effervescent fumes of alcohol, but with the permanently exhilarating emanation of all that executive power that he wielded so long and so widely. He found it more pleasant, however, to live abroad, during most of the 'fifties, conducting lawsuits, which culminated in 1865, in his being committed to York Castle for contempt of court in non-payment of a large judgment debt. His major crime had been success. For this he was never forgiven. Those who had been slower to use the opportunities they shared with him never forgot it. Of the millions that passed through his hands only a very small portion adhered to them, and that he could not take with him when he died. But a whole generation benefited by his energy and organising power, and twenty years after his death the market he created became one, as we shall see, for investment rather than speculation.

A growth in many respects similar can be observed during this period in France and Belgium, and more diversely in the United States. France emerged from the Napoleonic war period without squirearchy or Quaker families. Its credit facilities, therefore, were far more centrally grouped, principally in the Banque de France, but also in large joint-stock concerns which came into being, between 1818 and 1836, in the old centres of industry such as Lille, Rouen, Le Havre, Orleans, Nantes, Lyons, Marseilles, and even Toulouse. The present "industrial north" of France had by no means emerged, as had the roughly equivalent district in England. The greater strain of war, the conservatism and individual poverty of its large peasant population, now firmly established in possession of the land, and the much less abundant and convenient distribution of its mineral resources, all contributed to keep the larger, and still ostensibly richer, country out of the first place, which Great Britain was now, for the

first time, definitely seen to hold. Nevertheless, the Paris, Lyon and Méditerranée Railway Company borrowed the equivalent of £3,000,000 sterling in 1846, and very considerable newspaper flotations in Paris show that curiously sporadic and apparently natural growth of the joint-stock idea. In Belgium, under royal encouragement, there also appeared the beginnings of an industrial renaissance that we must again attribute to the inherent instinct of a population once trained to organised industry. During the eighteenth century, Flanders in particular had been so continuously fought over that little but ineradicable agriculture had been able to maintain itself, and that thanks to one of the most fruitful soils in the world. The severity of the struggle can be judged by the deterioration of so flourishing a medieval city as Ypres, to the mere "strong point" fortified by Vauban.

In the United States progress naturally took an extensive rather than an intensive character. But its abundant waterways favoured the organisation of paddle-steamer navigation, while its immense landed resources and, we must think, the qualities of its inhabitants, prevented its small landowner from relapsing into the mere peasant. Hence there arises a curious side issue. Neither France nor the United States, although subject to convulsions resulting from inflation and its inevitable results, had anything like the regular "credit cycle" which attacked English credit. The year of the railway boom and consequent panic was marked by yet another of these phenomena. And this time the fact had a most ironic bearing. Three years before, in 1844, the wisest heads in England had been employed in formulating the Bank Act, a new embodiment of regulations governing the note-issuing powers of the Bank of England, with the express design of steadying and easing the credit machinery of the country. They were all distinguished men, and among them

was the eminent Overstone, born to banking, a private banker, and subsequently identified with the best of the joint-stock formations of the period, still perpetuated in the Westminster Bank Limited. The Act was duly placed upon the statute book, yet, in spite of motives as disinterested as their personal characters and attainments were distinguished, the promoters achieved a typically English (even as distinct from Scottish) solution of the difficulty. Within three years, on the first occasion that it should have protected the money market, the Act had to be suspended, and its suspension brought about the very relief that its enforcement had been supposed, and had failed, to secure. This has happened again since those days. Yet the Act remains unrepealed, and though rather obscured by the events of 1914-1918 is still theoretically in force. And one day the incredulous historian will be obliged to record that during the century that English finance led the world, it was dominated by a rule so excellent that it had to be broken every time that it was seriously invoked.

Yet in spite of portentous comic legislation, booms, panics, great losses to individuals, and the accumulation of an unheard-of unpropertied, wage-earning volatile population, never more than a week away from starvation (the last two, factors that would have wrecked any other country, compensated and subdued by the richest stream of private individual, voluntary and indiscriminate charity ever known), England and, on different lines, Scotland, flourished and expanded, the workshop and the carrier of the world. Its golden age was first canonised in a most novel way by the genius of one who was neither English by birth nor concerned with trade.

The fortunate sex of the queen had left the development of speculation in England free from interference on the part

of the Crown. The events of the seventeenth and eighteenth centuries had cut off for ever the possibility of an autocrat of the type of Elizabeth devoting amateur accomplishments to the betterment of an unwilling country. Considerable resentment was therefore felt when Prince Albert, the consort of Queen Victoria, began to take what was felt to be an unwarrantable interest in English manufacturers. Albert, on the other hand, was no happy-go-lucky Englishman, taking the country's fortunate position and unique natural riches as a mark of Heaven's favour, hard-working when inclined to be so, and only really awakened by sport. No, he was cast in the serious mould of German professorship which had instructed his early years, his sense of duty sharpened by the precarious dignity of the small German State which was his real and beloved home; and however near German racial affinity may be thought to come to British blood-stock, there always remains the fact that the English people are Germans who have crossed the sea. It is therefore very greatly to his credit that he persuaded a reluctant nation to entertain the proposal of a Great Exhibition, and after immense effort on his part a site was chosen in Hyde Park, and a huge glass house, that still stands, removed to-day to Sydenham, called the Crystal Palace, was erected and filled with a most curious collection of objects.

There can be little doubt, however, of the influence on the general speculative faculty of the country, and of Europe at large. There are men alive to-day who have heard from their own fathers' lips of the effect created upon the cosmopolitan audience of the 'fifties by the opening speech made between the blaring of bands, the singing of choirs, and the twittering of sparrows upon the live trees enclosed within the erection. The whole world was adjured to work, but especially to invent, explore, and organise. Warfare was held to be an

unworthy human activity and a thing of the past. Not on moral grounds only, although the court of Victoria and Albert was a model one, but because war was detrimental, wasteful, and destructive. It was of small account that within four years three of the most prominently represented nations were at each other's throats. The occasion marked the first great international admission that the man in a top hat and trousers, merchant, manufacturer, financier, or lawyer, was the person who mattered. For the first time the military and naval element took second place.

No very special effect was apparent. England went her way as much because of, as in spite of Albert. Severe crises shook both the 'fifties and the 'sixties, but the next considerable milestone stands at the year 1870. Up to that time France had still been ostensibly the richest, certainly the most brilliant, and politically the preponderant power of Europe. In a few months a good deal of obscure but fateful readjustment took place. The crushing defeat of France, and the sudden welding together and establishment of the single united power of Germany, not only entirely altered the political outlook, but threw into the background the last remnants of feudal survival, the dynastic complexities of Austria and Spain, the questions of papal power or Turkish integrity. The new age was not so much that of "blood and iron" as of money and population. Nor was this peculiar to Europe, where the centre of interest was, for the first time since 1815, recalled to its Western portion. This year was the principal period of American railway borrowing, and also that in which many English lines created their senior charges. But much had yet to be done to bring the Stock Exchange into repute. In Mr. Arnold Bennett's play, "Milestones", the scene laid about this period contains the line in which a character speaks of "chimney sweeps and



THE TONTINE COFFEEHOUSE, NEW YORK, 1797

*From the Original Painting by Francis Guy, owned by The New York Historical Society.
Courtesy of the Robert Fridenberg Galleries*

stockbrokers." There is every reason to think that this "local colour" is correct. As yet nothing had occurred to elevate the reputation or popularise the traffic in negotiable instruments. The county town or local district type of banking was all the financial organisation known as desired. Agriculture was still a flourishing occupation, and steamships were the exception. The Atlantic cable had been laid, but internally, the business of England or any other country depended on a daily delivery of letters from and to London, or the nearest capital.

Yet at highly specialised points, the speculative mind could be seen to be moving. Albert had coupled peace and progress with industry and commerce. It soon became evident that universal peace was yet a long way off, but that progress was actually facilitated by war, which stimulated, under the new conditions of great national armies maintained in the field for years together, both industry and commerce. Thus the Civil War in the United States made way for a great era of railway building. In Europe, France paid off the gigantic indemnity to Germany, and, had that latter country remained stationary, might still have been the most considerable power of the Western states of the Old World. But the rise of Germany, under a highly centralised bureaucracy, was even more phenomenal than the looser, freer, and more natural growth of the United States. The ancient banking and marketing centres, Frankfort, Lubeck, Bremen, had to yield precedence to Berlin, which became the school and centre, from that date to 1914, of a more than national effort, that looked far beyond the petty principalities and archaic free towns of which the empire was composed, to a great colonial empire in Africa, Polynesia, and the East. More than that, the permeation of allied countries, Austria, and subsequently Italy, the furnishing of Russia, the military

equipment of Turkey, were symptoms of a new and subversive school in super-politics. The prime fact of the German effort was a large and highly skilled population. It was for the very lack of this that Holland had lost the premier place in economic progress. Germany now showed what could be done, far beyond the confines of her own jurisdiction and language, by skilfully disciplined energy and capital, directed with a view to eventual world control, if not peaceful conquest. In fact, could only the events of 1914 have been forestalled, it is possible that Berlin might have become, rather than New York, the competitor to be feared by London as a great international market in credit operations.

In the meantime, the growing organisation of the United States suffered from a crisis which was more or less confined to finance, and markedly to the speculative element. It could hardly be otherwise. The immense potentialities of the republic made it very difficult for the production and consumption of material commodities to diverge widely enough to upset the ready markets so large, so new, and so energetic a country could find within itself. Its financial organisation was, however, as yet necessarily ill-adjusted to its opportunities. The theory governing the investment of the funds of such an institution as a life insurance office, for instance, has never been quite the same as in England. The initial trouble of those days is said to have been caused by the failure of the Ohio Life Assurance, but there had been, preceding this, numerous cases of banks in difficulties, which, without endangering the entire fabric of credit, had acted opportunely as a warning that all was not well. The crisis, however, was never allowed to go so far as some of those which preceded and succeeded it, on account of the circumstances surrounding it. The extreme activity that had prevailed in the construction of permanent services of transport

and other facilities had left but little capital available for, or attracted by, the more hazardous type of investment. The general expansion of the Continent was all the time providing new sources of wealth, and upon recovery the North American field entered upon a period of prosperous development only postponed by the Civil War, which, however, by directing all the energies of the country into other channels, and by rendering at once imperative and easy of imposition restrictions upon the allocation of capital prone to investment, absorbed the energies of that part of the world for over a decade.

In England the effort of these years was necessarily intensive rather than extensive, as so much of the ground that other countries had to cover had been already explored. The peculiar luck which is the distinguishing mark of the consolidation rather than the enlargement of British gains, was shown at this time by a greatly increased self-consciousness. Various elements contributed to this. The British Isles were not involved in any of the great wars of the period, and from the Crimea onward reaped all the benefit of the spectator, rather as the United States did in the early years, 1914, 1915, 1916, of the struggle of our own times. French railways were built with British labour, American railways with British steel. Nor was this wonderful. Great Britain already had what France has never had, a great body of detached, propertyless, half-skilled labour. Great Britain had the means to supply a mass of hardware beyond its own requirements. This led to a curious side influence in the stock markets, for on sentimental grounds (Great Britain having favoured the South during the Civil War) United States Government issues were not looked on with great favour, but to receive bonds in payment for goods delivered was another matter.

Thus thoroughly internationalised, the London Stock Exchange found it high time to put its house in order. There was the ever-vexed question of foreign loans. Spain had defaulted, while other issues were made under circumstances of which the Committee of the Stock Exchange expressed disapproval. But what was the Committee? The answer must be: an archaic body governing an ill-defined but profitable partnership. The Stock Exchange had not only had its dull days. It had had periods of serious loss of membership, while there had been threats — less frequent, and not supported by such vigorous attempts to put them into execution as in the case of its contemporary and similar organisation, Lloyds — of the organisation of a rival and free trade Stock Exchange. With regard to the technical detail of the commodity in which it dealt, stocks and shares, it had received a serious lesson in the limited but severe panic of 1866, when Overend, Gurney and Company, who were, *par excellence*, merchants of credit instruments, bills discounters, and financiers, suspended payment. The capital of this company consisted of shares of £50, £15 paid, and had stood at as much as £10 premium. The lengthy and difficult liquidation actually dragged on for thirty years. It cannot therefore be wondered at that, on all these counts, it was found advisable to submit to the searching inquiries of a committee on Foreign Loans in 1875, and another on the Companies Acts in 1878, while in 1878 a Royal Commission was appointed on the working of the Stock Exchange itself. It must be felt that the time was ripe. The conception of credit, not merely as a convenience, but as an eminently transferable quasi-commodity, that could be mobilised wherever need demanded or opportunity offered, now emerged. Rates of interest were falling. British Funds yielded an average of three to four per cent., and colonial issues four per cent.;

Foreign Governments, taken together, ran from six up to twelve per cent., but Russian and United States Loans yielded four and one-half per cent. British Rails, after many tortuous adventures, now bore about four per cent., and foreign lines five per cent. up to ten per cent. A big free market had grown out of the list of 300 securities quoted in 1852. Yet it was not until 1886 that the stockbroker of London was emancipated from the ancient licence of the mayor and aldermen, and considerable rebuildings of the edifice housing his activities were undertaken.

While in Great Britain this detached view of world movements had been possible, and France and Germany had been involved in an absorbing struggle, the rapid recovery of the United States from the Civil War had resulted in a period of over-stimulation so characteristic of such a phase. The speculative mind, as usual, led the way, and in 1869 there had been minor troubles confined to stock-exchange activities. During the succeeding years unprecedentedly heavy failures in general business had been noticed, but the panic of 1873 was on a larger scale. It was many-sided. The considerable construction of railways and docks, the increased development of the Far West of those days, and the signal failure of Jay, Cooke and Company all played their part. Some writers, on the other hand, remarked upon the general raising of the standard of life that began to be noticeable about this time, with which we are thoroughly familiar as one of the phenomena of any post-war period. Men who have spent years in camp and bivouac, under the everlasting threat of sudden extinction, think nothing too good for them, while those not actually engaged in combat are influenced by a fatalistic conception of life prompted by sudden loss, or by un hoped-for relief from the stringencies of a war period. Thus there is a tendency, extremely difficult to trace and

summarise, for innumerable small sums in household budgets to be devoted to enjoyment and indulgence. Savings fall, and consequently the mobilisation of fresh capital for the exploitation of new fields of enterprise is hampered, and has to be undertaken by borrowed funds. Apart, therefore, from special instances, such as the general inability of the newly constructed railways to earn a sufficient return upon the capital so rapidly sunk in them, the more widespread effect is in the dissipation of energy, and energy's concrete symbol, the rapid mobilisation of new capital for employment. This factor was very marked in the years which followed the American stress of 1873. It is computed that the effects were felt for at least five years, and it was actually not until the year 1882 that the North American States could again be said to be producing to their full capacity. The reasons for so slow a recuperation lie precisely in the causes indicated for this crisis. It is almost impossible to wean a post-war public from its habit of mind. Thus the factors in recovery were the solid but slow ones of the gradual resumption of the cotton industry under its new conditions, and the reconstitution of the finances of the railways under the impartial and skilled superintendence of the receivers, into whose hands many of them had lapsed. There is no power in finance so strong as that of a receiver. He can plead the limitation of his mandate, and equally the circumstances of the business over which he has been placed in authority.

By the advent of the 'eighties, Burton remarked, the productivity of the country had risen so that the improved standard of life was no longer out of proportion. Yet the event had been so striking that it left memories that endured for many years, and we may still gauge the depth of the disaster by the fact that the New York Stock Exchange was

closed for the unprecedented period of ten days, while the reverberations made themselves felt in London, Paris, and South America. Meanwhile, apparently inevitable, the next crisis arrived in due course, and was, in this instance a limited one, of especial importance to the technical handling of speculative material in Great Britain.

This British crisis of 1878 is not regarded by many authorities as being the reflection of outside events. The stimulus of the Franco-Prussian War and the minor railway boom had spent itself, and no very serious results had been felt in London from disturbed conditions in Austria and the United States. There remained, however, the effect of the efficient and highly centralised organisation of German industry and wealth under its new German Empire, which had adopted gold and mobilised its new commercial entity on an almost military basis. Prices fell, credit was impaired. The outstanding event from the point of view of the speculator was the collapse of the City of Glasgow Bank on October second. It may well have been that no such disaster could have occurred in England, or in any case have produced results that have had such epoch-making effects on the marketability of securities. For Scotland was still much more like the countries of the Continent than like England in economic habit. There existed, north of the Tweed, no widespread system of private bankers such as were to be found in every English county town, persons of considerable wealth, not only in invested funds but in land, and rendered all the more conspicuous by the relative poverty and dependence of the bulk of the population surrounding them. In England such men were often of serious-minded Quaker stock and expert in their profession of looking after themselves, while exercising a highly individualistic authority, tinged with benevolence, over local trade. In Scotland, on the other hand, while

wealth was much more widely dispersed, and always accessible to a hard-working and saving proletariat, yet the actual mobilisation of credit centered in half a score of big banks, was in fewer, and in the case of the City of Glasgow, less cautious and experienced hands. Ever since the largely abortive parliamentary inquiry of the 'thirties the old unlimited joint-stock form of holding of shares in banks had persisted, and more recent attempts to deal with the matter had not borne fruit.

In the case of the City of Glasgow, ninety-four per cent. of the capital was held by people of a financial calibre quite incapable of satisfying calls amounting to 2750 per cent. of the par value of the shares they had bought, a figure which the liquidator was undoubtedly legally empowered to demand from them. The necessity for a system of "limited liability" was startlingly revealed. The legislation which followed this harrowing spectacle made possible the holding by all and sundry of small and perfectly definite parcels of industrial credit. The effect of this went far beyond the useful and necessary assurance that the speculator who purchased a block of shares had either no further liability, or, at the worst, if partly paid, an absolutely definite one which could be forecast and provided for. It opened the way for the comparatively easy flotation of all sorts of industrial enterprises, and for the conversion of existing private partnerships, cumbered with all sorts of involved technical readjustment in the case of the death or secession of any of the partners, into structures which cannot avoid a large measure of publicity as to their dealings, whose shares are, except in the most dire event, as marketable as any commodity, and about whose winding-up, should the necessity arise, no legitimate mystery or unforeseen hardship should exist. In fact, the first education of the general public, in any holding outside of Government



CLARKE'S HALL, OR MERCHANT'S COFFEEHOUSE
Philadelphia Stock Exchange in the Eighteenth Century

stock, then began, the big banks and financial houses early adopted the new facilities, and it is beyond our competence to assess the value of the new mentality that was exhibited, tentatively, among the more experienced habitués of the City, during the crisis of 1890 and far more remarkably, by the nation as a whole, in 1914.

The various enactments regarding shareholding and limited liability had by then made the ownership of a big business as much easier to handle than it had been in the form of private partnership or individual trading, as those forms of organisation were easier to control than manorial rights. The great amalgamation movement now began to gather way. In banking, Lloyds Bank, and the London and Midland as it was called, and subsequently Barclay and Company, began not merely to emerge from the ruck of private or district banking, but to absorb their potential competitors. During the nineteenth century some 2000 banking houses held bankers' licenses. A certain number of these disappeared from natural causes, but amalgamation principally reduced them to under a hundred in the early years of the twentieth century, while in 1920, twelve enormous combinations survived. Under such distinguished leadership, other financial, commercial, and industrial groupings followed. The net effect was naturally to introduce a great impersonality into speculation. The individual or partnership may, and often must, go bankrupt. Various types of "arrangement" are far easier to organise with a limited company, while with agglomerations that have arisen during the twentieth century, it is safe to say that no Government dare allow such a national calamity as their collapse.

Although the British crisis of 1878 was comparatively limited in scope, several bad years followed it, with high bank rates and unemployment figures. This synchronised

with the slow and difficult recovery in the United States, and the embarrassments which made themselves felt in Paris in 1882; and again in 1884, when also there occurred spectacular failures in New York, notably that of the Metropolitan National Bank and Grant and Ward. It is extremely hard to estimate the connection which can be said to exist between the two. For while in European countries there was stringency at certain times and inequality of prosperity consequent upon labour conditions, there was no definite breakdown such as had, on former occasions, necessitated the suspension of the Bank of England's Act of 1844. In America, on the other hand, the silver question was beginning to make itself felt, and the issue of silver certificates eased the situation. Meanwhile, other factors were coming into play. A country so comparatively backward as Russia had been slowly introducing railways, and an appreciable number of joint-stock companies had been formed in the years succeeding the Crimean War, which is said to have first opened the eyes of the Czar, Nicholas I., to the necessity of introducing modern commercial and industrial methods to his country. After the conclusion of the war with Turkey this movement received a great impetus, in spite of archaic legislation, and a medieval attitude towards the Jews, almost the only class that did not share the characteristic national apathy and half-Oriental attitude of mind. The slow awakening of Eastern Europe must be borne in mind, as it cannot have been achieved without increased consumption, and leads up to one of the causes of the next phase — namely, the growing incapacity of the Old World to feed itself.

The British crisis of 1890 contains far less conjecture as to its origin than most occurrences of the type. South America was beginning to come into its own, and demanding unpre-

cedented quantities of capital to develop its resources and institute its services. Argentina was the principal borrower, and the first effect of over-speculation was observed in Paris, where a well-known financial house had to make an arbitrary arrangement with its creditors. It followed that Argentine loans suffered on the market, and the great house of Barings, comparable only to Rothschilds in reputation for this sort of activity, became embarrassed. There followed, on a November day, the unheard-of spectacle of the formation of a syndicate, in which the Bank of England led and the other more considerable financial houses followed, which guaranteed the liabilities of the firm. This gave breathing space; the older retired partners returned to the aid of their house, which was saved from bankruptcy. The interesting point is, however, the new mentality that made such a meeting possible. Even twelve years before, no such step could have been thought of. The characteristic of most crises, the very cause, certainly the aggravation of them, was the point of view which constrained the individual to get out and save his own skin at any cost whatever. In Barings' crisis, a number of individuals, responsible far beyond their own private capacity, pledged the credit of which they were but appointed or elected managers or trustees, in the support of a house which had no direct legal claim upon them for such help, but to which they were glad to make the offer in the interests of common safety and convenience. Nor can the name speculative be avoided in connection with Barings. They were agents for the borrowing of English and other European credit to exploit a new country. In fact, they were doing, on another scale and with many advantages, only what Paterson and Law had attempted nearly two centuries before. The events surrounding their support and assistance by a public committee, headed by the semi-official Bank of England,

amount to nothing less than a full recognition of the necessity of the type of operation that they conducted, and by inference, of all approved Stock Exchange transactions whatever. The change in unofficial and inexperienced public sentiment can be gauged by that invaluable barometer provided by the pages of *Punch*. From that period the stockbroker is no longer classed with the chimney sweep. The fashionable drawings of Du Maurier now show him as a somewhat fast and as yet untitled, but by no means ostracised, member of that society which centres in the west of London. Looking back as we now can from the twentieth century, the 'nineties present an interesting spectacle, but one which can hardly be instructive. The conditions are so remote, far more so than those of periods which in point of date are earlier. It is not easy to recall the extreme stability of that decade. The London Stock Exchange had now become a respectable institution. The broker was licensed by public opinion to be rather superb in dress, sumptuous in living, while the practical and other jokes of the "House" became the standard at once for buffoonery and wit. Exalted names began to replace the Oriental ones, in the titles of leading firms, and while the adjective "speculative" was still applied to the new "Kaffir" market, which dealt with the newly organised mines in South Africa, that produced gold, diamonds, and precious metals, other markets, notably Consols and Home Rails, became a legend, whose benevolent security combined the sanctity of the medieval religious order, the prestige of the lifeboat, and the aspirations of Scripture in one. It was from this date of high returns and comparatively low costs that the funds of charitable societies and marriage settlements, the savings of hard-working single women, and the fortunes of feeble-minded younger sons were placed in the premier British securities, with results that we shall examine later. Many

causes contributed to this. Experts in currency questions point out that the fluctuations in gold output and consumption, which may have had some share in the events we have recorded, reached in England about this time a temporary equilibrium. But a more obvious factor was not only the extreme length and relative peacefulness of the reign of Queen Victoria, than whom few men alive could remember any other monarch, but the character of the Court. On account of the queen's widowhood, much of the pageantry immediately surrounding the Crown had been allowed to lapse or diminish. The real leader of society was the Prince of Wales, a man of the world, combining exactly those qualities so dear to an Englishman — sportsmanship with conservative retention of all that panoply that belonged to his order. His friends were the great yachting and shooting bankers and financiers, Sassoons and Rothschilds, or the empire builders, Rhodes and Stanley. In all the board rooms of London, his naval beard and immaculate frock coat were copied. He gave to the City, as the streets dedicated to finance round about the Royal Exchange were now called, a cachet that Paris and New York can never have, and which the too medieval attitude of the Kaiser failed to lend to moneyed Berlin. He made the Stock Exchange fashionable, not with a clique, but with a country, and the sons of all the shy, eager dissenters who had built up the businesses of Great Britain, upon a basis of super-Biblical probity, hastened to lay their dearly purchased grouse moors at his feet. All the golden promises and silver certificates in the world could not produce such an effect.

There can be little question that the year 1896 was the most prosperous, on all counts, that Great Britain has ever experienced. South Africa was beginning to make itself uneasily felt. But taking the British Isles as a whole, it was

about this year that such conveniences as regular holidays, a daily paper, and a relatively high purchasing power reached the greatest number of the population, and were received with uncritical thankfulness, and not until much later did any perceptible inquiry arise as to whether such benefits were proportionate to the part played in the life of the country by the wage-earning classes.

Thus speculation was left unhampered by outside criticism, and at the same time radical changes were greatly benefiting the currency and general organisation of the country on which its activities depended. The greatly improved feeling of solidarity of City interests evinced by the conduct of the Barings' crisis is only one piece of evidence, the rapid growth of amalgamation among the premier banks was another. One after another the great businesses of Britain converted their unwieldy individual or partnership organisations into limited companies, the change being marked for the most part by improved management, and always by increased auditing and publicity. At the same time the speculative situation in France, or more exactly Paris with which town telephonic communication was established in 1891, in spite of occasional ugly incidents, rested firmly upon the extreme stability and saving instinct of its peasant class, from which it fed in complete detachment. Financially, the Bank of France was actually able to come to the assistance of the Bank of England in 1890. Germany, although already making itself felt commercially by cheap production and infinitely superior salesmanship, was not considered as a rival to London in the speculative market, and Amsterdam retained a minor but noticeable place in international flotation.

The greatest contrast at this period is to be found with New York. The decade is marked by feverish production, very unequal in various industries, and by over-optimistic

flotations. These bore fruit in 1893 in the worst crisis for twenty years, from which recovery was as slow and difficult as in the 'seventies, if for a different reason. A shadow overhung these years, that of political and currency uncertainty, which are more closely connected in North America than in Great Britain. The controversy over bimetallism created a continual feeling of doubt as to the maintenance of a gold standard, which, being an act of legislature, was held in suspense by the prospect of a presidential election due in 1896. The same fact governed the existence of the tariff laws, and a symptom of the time was the withdrawal of foreign capital, ostensibly on the grounds of uncertain issues involved, but, one may suppose, also demanded by the considerable development taking place in the more backward parts of Europe. Thus the America which only in 1898 began to show signs of a general forward movement, was able to withstand tight money conditions and alarming bankruptcies in 1901, without sinking to panic conditions, but was yet more than a century removed from the America, provider and financier of the world, to which we shall shortly have to direct our attention. To sum up, the half-dozen great stock exchanges of the world, with their attendant commodity markets and financial organisation, were now internationalised but not yet highly sensitised, one to another. London, notably, was far more insular than in the day when foreigners in distinctive clothing and habit trod the floor of the Royal Exchange, and the crises of 1890 in the one country and 1893 in the other had, by twentieth-century standards, but small repercussion.

A century, according to the dates on the calendar, ends at a definite moment. It is, therefore, much more difficult to fix the end of a period of history of so widespread and irregularly growing a human faculty as the speculative.

Yet for the sake of comprehensibility, some such distinction must be attempted, and it seems, for many reasons, most useful to fix the end of the nineteenth century in financial speculation at the death of Queen Victoria in 1901.

This is not in the least due to insular Chauvinism. There can be little doubt that the student of international history must be largely preoccupied, during a view of the nineteenth century, with the part played by the British Empire, especially England, London in particular, just as he will be equally preoccupied with the domination of the field by France during the eighteenth century and Holland during the seventeenth. Before that lies the earlier internationalism of feudal Catholicism. The nineteenth century may therefore be fairly called the English century rather than the British, for it was the time of the first organisation of a world market in credit instruments, among which we are more particularly concerned with stocks and shares. True, this market remained in unchallenged supremacy for thirteen years after the end of the queen's long and comparatively equable reign, but the year 1901 appears as a sort of watershed of tendencies. From it events run down towards the cataclysm of 1914. The first and most absorbing effort of her successor was the attempt to prevent that rupture with Germany which has had such a catastrophic effect upon financial affairs. The effort failed. The nineteenth century was over. On the other side of the watershed, if we may preserve the simile, the main stream of prosperity was a British stream. From the farthest ends of the earth the pioneers of new civilisations, the renovators of the old, drew upon London, not merely those indispensable bankers' drafts by which alone their daily commercial needs could be accommodated, but for the capital by which only their public services, necessary to a state of civilisation, could be instituted. The signs of change were

present at the very moment that one era merged imperceptibly into another. The South African War was still dragging on. That war was not so much a new portent as a notable reversion. Since the life-and-death struggle with which the century opened, the United Kingdom had been engaged in one European war, in which the chief motive was political, and in a series of minor campaigns in which no particular commercial element was visible, unless the Egyptian and Sudanese expeditions can be considered as acts inevitable to the safeguarding of the Suez Canal. But the war of 1899 was obviously undertaken to protect and improve the property in South Africa chiefly owned by British shareholders. This accounts for the unprecedented interest taken by members of the Stock Exchange in its fortune. Its results were even more far reaching than the queen, who was extremely distressed by it, foresaw. They belong to the twentieth century. All that we need add to our survey of the nineteenth is the reversion to the colonial trade war of the sixteenth and seventeenth centuries. In this England was not singular. In the same decade, the United States and Germany both undertook such adventures, if on a more restrained scale. In other words, the economic factor now outweighed the political and military ones in the lives of nations, and a stock market the influence of Government departments. Looked at in retrospect, it seems that this was about the time that the New York Stock Exchange began to show its distinctive character, which was to mark it out from the similar institutions of the Old World. It had had, indeed, up to that time, no great opportunity to show its natural trend. Its early strides were remarkable, and its organisation rapidly caught up to European exchanges. Once formed into a more or less recognisable body, furnished with a habitat and the beginning of a list, its activities took a very different direction. The

“national” debt was largely foreign-owned, and was only gradually absorbed. In spite of its far greater adaptability, its character as of a child born with all the qualities of an adolescent, it was faced from the outset by considerable currency difficulties and with the demands of its own State, as distinct from Federal, obligations. It had naturally no margin to create a large holding in foreign stocks, and that market, developed later, has even to-day none of the first-but-one importance which it assumed at the same period in London. Thus the next market to be developed was that relating to its gigantic transport requirements, in which the possibilities of the application of steam to its waterways are said to have attracted Stephenson before the rails of England. This market, it seems, was largely used by British owners of unemployed capital, for the phase coincided with that drooping of the London Stock Exchange, in the later ’twenties, which has been severally ascribed to the evil effects of the orgy in unsound South American State loans, and also to the lack of any great personality, as a leader. Certain it is, anyhow, that much of the capital that built the first canals and railways in North America was subscribed in London, and even much of that by which the cotton plantations were furnished or extended. As the century advanced, however, the United States increasingly absorbed its own issues, and before passing the climacteric of the Civil War, was evolving, not so much a distinct technique, as one different in degree rather than in kind. Manipulation for the purpose of speculation is very ancient. It can be traced far back into classic and Biblical times. Yet no one supposes that the early practitioners of the corner, the pool, and eventually the holding company and the trust, read up the subject in ancient lore or holy writ. And if the more complicated types of manipulation are an indigenous growth in North America, they were



NORTH SIDE OF WALL STREET, 1816, SHOWING SITE OF
STOCK EXCHANGE

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certainly pursued with greater energy and wider scope. Ripley speaks of the Michigan Salt Combine of 1861 as being the earliest example, but other authorities mention the Morris Canal Company of the 'thirties. After the Civil War, however, these forms of stock-exchange activity became a byword and example to the older stock exchanges. Thus, from the 'seventies onward we find considerable and continuous legislative efforts directed towards the limitation and control of the various efforts at manipulation, which as constantly sought to evade such control. Nothing like it can be found in European history. And this is natural, for the more highly individualistic any society becomes, the more natural it is for the manipulator to see himself entitled to make as great a personal profit as he can, in spite of the common utility on which he is as much dependent as all those surrounding him. The tendency in Europe was rather for legislation to take pains to ease and render technical forms more liquid, for the advantage of the speculator — in this case meaning the professional operator — who, on his side, showed none of the bellicose and determined quality of his American rival. There was, moreover, in London, at least, a loss of individuality. In the early part of the century N. M. Rothschild, to name only one example, exercised an unparalleled influence upon prices, controlled a large sphere of the international counters, and has left a deep impression on the writers of the period. It would be difficult in the second half of the century to name any one man who filled his place, at least until the last decade, when certain names came into prominence over the events in South Africa which precipitated the South African War. But the market, in shares of the mining and other companies of this region, was a far more limited field than that which American transport (principally railway) and subsequently other shares presented to

New York and Chicago. And the legend of the millionaire never had, in Europe, the same glamour. The richest men were known in England, at least, by other qualities. It is almost safe to say that ancient title and participation in a certain not closed, but rigorously and automatically guarded, section of society are even to-day stronger in appeal and more desired than the mere renown of wealth. This may be vividly seen in Galsworthy's play "Loyalties", in which an extremely intelligent and presentable young Jew has obtained entry into the country house week-ending society of the public schools, select clubs, and "royal" services of Britain that form the real court of the modern monarchy. He seeks, further, actual membership of one of those clubs that line Pall Mall and Piccadilly. He is robbed of a sum of money and protests. We need follow the story no further. He is soon made to feel that he has done an unpardonable thing. It is not merely that there are still things in England that money cannot buy. But even when money does purchase an entry to the highest circles, it has to obliterate itself. It must not be spoken of; it must be assumed. There is no glorification of poverty and exile from power, as there is in sections of the ancient decayed French noblesse. To suit the English mind (not to the same degree the Scottish), money must be camouflaged.

This may be at least one reason why there is no real equivalent in Europe to such names as Jay Gould, Rockefeller, Morgan. They cannot get the Order of the Garter. To them, money is money, not the means of displaying, with an almost childish seriousness, the trappings of the feudal world of five hundred years ago. No comparison exists with Germany, where evolution has been so rapid and so rudely broken. It yet remains to be seen how German social organisation will recrystallise. But in America

there is further the need for a millionaire to remain a financier, and not a titled anomaly. He is not so readily forgiven as a European of equivalent record. Not all the charitable bequests in the world can obliterate the memory of the methods of certain trusts. On the other hand, the charities, the country seats, and the gradually slackening predominance of the Barings and Rothschilds have completely overlaid the part that those houses may have played in the earlier evolution of the London money market. They might lose their millions without losing the patent of nobility. Thus Wall Street stands parallel with but widely differentiated from Capel Court. Paris and Berlin are, as we might expect, far more closely State-regulated, and peopled by a type so distinctive against their national backgrounds as to amount almost to a sect. It is, in fact, when we turn to consider the gradual emergence of New York and Berlin, the permanent rivalry of Paris and Amsterdam in the field of speculation, that we see the sunset of Victorian England in particular, and of Great Britain at large. There is a distinction here, for much of the vitality of Scotland and Ireland, which might, either indirectly by commercial productivity, or directly by the application of brains and energy, and the provision of capital by creation and saving, have materially affected the importance of London in finance, have drained away to the colonies and the United States. Nor was there, in 1901, nor is there now, any sign of sudden or complete obliteration. On the contrary, as we shall presently see, the actual speculative machinery of the London Stock Exchange has worked more smoothly, and been freer from general disaster since that date than before it.

Yet something did, about this time, pass from that financially sacred ganglion of streets about the Royal Exchange. Unique, experimental, founded upon Biblical training and

escorted by extraordinary good luck, the spirit of that time was well personified by the top-hatted, frock-coated moneyed man or broker, at first whiskered and subsequently bearded, who did, for three quarters of a century, more exactly as he individually liked with the great new collectively generated machinery at his disposal than any person before or since. It may be no idle fancy that finds the changes of the last twenty-five years expressed in the outward appearance of the daily (much denser) crowd that now fills the same place. To-day it is a population more largely composed of women and underlings, less ponderously dressed, and cropped or shaven, not merely as to the head and face, but in the mind and spirit. Great changes have come, an immense body of regulation and supervision has been imposed from without, while within, amalgamation and interrelation have at once steadied and cramped the erstwhile rather childish individual independence of the centre of the moneyed world. Almost instant communication with other centres of similar activity has in one sense broadened the outlook, but in another has made impossible, by sheer complexity and extent of opportunity, that exercise of personal whim which used to be so pronounced a characteristic. A great levelling has taken place. In view of the events we shall shortly have to survey, we are justified in thinking that the panic is a thing of the past. If so, then that corresponding, rather easy, Victorian prosperity is gone also. The extremes have been obliterated. A very considerable body of speculative activity remains more stabilised than ever before.

PART V

UTOPIA LIMITED

WE cannot be far wrong if we date a new state of things in the market of financial speculation almost exactly from the accession of King Edward VII. to the throne of the United Kingdom and the British Empire. During his mother's lifetime the indisputable start that British financial institutions had early obtained and obstinately held, had coincided with a certain obscuring of the figure of the sovereign ruler of so much wealth and power, dictated partly by her great age, that placed her outlook far back in what were essentially other days, partly by sex and widowhood, and so emphasised a political isolation dictated by the convictions of a veteran and dominating Prime Minister.

In a few years, even in a few months, all was changed. King Edward, a man, and a man of the world, from strong personal conviction, and by means of diplomatic arts of which he was a finished exponent, set to work at once to bring Great Britain back into the European comity of nations. This fact concerns us only on account of its remote and doubtless unforeseen effect. Greater Britain was already spread all over the earth. She now intensively resumed her place as part of Europe. It was as though the new king has realised that, for the first time for a hundred years, his people stood on the defensive. No other explanation accounts for his eager and vigorous effort to remove ill-feeling in France, and create good feeling with Germany and Russia. But in other

tones more insistent than his suave after-luncheon utterances, the same idea was being given currency, and among a much wider and more impressionable public.

King Edward sought peace and goodwill because he liked them. How much he deliberately attempted to safeguard British credit from the perturbances of European war and ease the growing taxation caused by the armament race that now began against Germany, we shall never know. The words of Joseph Chamberlain were plainer. The kingdom and Empire were in danger. Such was the message of the man who at this moment, incapable of any similarity of outlook or personal sympathy with the monarch, marched side by side with him in the changing world, and dominated British political and economic life more than any Prime Minister for a century.

His is a complex and elusive personality, but one so vividly marked as to be, for decades, that most often seen in contemporary caricature. His clean-shaven face and monocle contrast vividly with that of his jovial, bearded king and lords whom he served, for he never in his brilliant, erratic career occupied the highest place in British Government. Whence did he get even his exteriors? From his suburban nonconformist upbringing, or from a prophetic vision of how men would dress and look ten years after his death? From the former, certainly, he took that zealot fire, that might have equalled Fox's or Bunyan's, but that, bereft of spirituality, was directed to the question of imperial preferential tariff. From the latter, surely, he obtained the assurance that led him, a commoner in days when lords still counted, to summon his own quasi-royal commission, and to make progresses hardly less than regal.

His opponents, who were many, hardly realised how deep were the sources of his strength. His private life was unex-

ceptionable. His civic career was brilliant. He made his native town of Birmingham a model to England, which England has never equalled. This is high praise, for Birmingham is not dominated by one great mill or dock; it is, *par excellence*, the centre of the old small master-craftsmen in England. And for a generation they followed the personality and, after his death, the very name of Chamberlain. He was a great speculator in private as well as in public life, and is said to have been nearly a millionaire at thirty.

With what weight, then, did such a man speak of the newly discovered danger threatening the trade and therefore the financial resources of England! He had won his way into the Cabinet, yet remained a commoner. He had organised Birmingham as no British town was organised, he might organise the beleaguered Empire anew. There is every reason to think that he was willing to do so. But the endless contradictions of his character were not exhausted.

Of what does his portrait remind us — the narrowed eyes, close-cropped, well-proportioned head, inquisitive and cunning nose, implacable jaw, sallow complexion, thin lips? Not of the hirsute marquess who was then Prime Minister any more than of the soft-collared fresh-air generation that was to follow him. That face goes back to very old pictures and carvings, where it may be seen bent over charters, or whispering about treaties. And this agrees with the most curious kink of his mind. When his proposals that were to meet the new and alarming situation were investigated, what did they amount to? Protection for industry, pure mercantilism of the fourteenth century, in fact. It was true that, so impossible was it for a man of his antecedents and record to admit any conservatism, he was obliged to call his campaign one for Tariff "Reform." But protection it remained, and as such has only partially squeezed its way into

operation piecemeal, years after his death, camouflaged as "safeguarding."

All this, of course, wears strictly a political, legislative appearance, yet its effect upon financial speculation was profound. Chamberlain's hypotheses were correct enough. British markets — by which he meant markets in which hitherto British goods had very naturally found little or no competition — were being invaded. It could hardly be otherwise. The new elements represented on the one hand Germany, on the other the United States. The case of Germany was extremely plausible. The Empire, hardly a generation old, was enjoying all those benefits of newly found unity which Great Britain had experienced about the time of Waterloo. Besides such a psychological impetus, there is in the German character a studiousness and discipline seldom to be found in the British, unless it be in the Scottish section of it. Small wonder that German firms began to turn out goods, and ships in which to carry them, that were cheaper and often better than the stereotyped British lines. But further, in Germany iron and coal did not lie conveniently to hand, communication had only recently been developed, and deeply embedded in the national mentality was a habit of industry that was actually older than that of the British. Careful and systematic education and organisation were therefore necessary and accorded with national ideals.

It was difficult to blame German enterprise for reaching out to all those remote parts that the British Empire had left untouched, or only casually exploited, and even for finding markets within the British Isles themselves. It was just what British enterprise had done in its earlier, looser, more individualistic phase. The mounting exports on the one hand, and a certain trend of emigration among the more liberal-minded members of the community, who found the

increasingly military organisation of the German Empire irksome, on the other, combined with a very natural desire of the Kaiser's Government to avoid the cardinal weakness of the rival British national system (or lack of system) which made the feeding of large town populations so onerous a business, to stimulate trade expansion.

In the United States ability and energy had been spurred by necessity and opportunity to a great development of engineering. The early process by which British capital and hardware had gone to finance and build railroads was now reversed, and American money and machinery plant began to make its appearance in England as surely as German goods and German banks were more and more commonly seen in the United Kingdom.

The fact that both the new entrants into the field of international trade were protectionist supplied all too glib and plausible a basis for Chamberlain's campaign. The argument that British markets must be protected was obvious. Even then it was difficult to reach a basis of agreement. Various schools of politico-economic thought began to appear, from the surviving corn-taxers, who very properly desired to make it possible for British farming to compete in British feeding, to the manufacturing classes, who severally desired to tax raw materials coming in, or, conversely, to admit raw materials and only penalise finished products according as they were interested in the one or the other.

The general body of British business proved too hard to move. The resilience with which the same nation had flung off protection, sixty years earlier, was gone, from mere passage of time, if for no other reason. Those who had made fortunes under the existing régime believed that they could retain them. The actual incidence of the new competition

was not sufficiently general or intense to give a wide basis to the agitation. And a further difficulty arose. Although the South African War was generally remote, and is now dwarfed in our minds by subsequent catastrophes, it was sufficiently grave to create a post-war atmosphere of reaction and expectation.

The years 1905-1906 were a period of revival in interests other than colonial expansion and military effort. There emerged for the first time, in any considerable force, the aspiration of the most primitive of all speculators, the attempt of the docile British working-man to raise the price of his labour. Such an element was not likely to be easily persuaded to endorse any policy which had the appearance of increasing his cost of living, and viewed doubtfully the contention that increased cost would be met by higher wages. The issue was never definitely decided, for Chamberlain's health failed at what might have been the critical moment. Other and more definitely political issues intervened and held the field until the Great War.

The effect of the controversy upon financial speculation was extremely indirect and remote. No definite collapse in any commercial market, no sufficiently marked diminution of profits in any of the sections of the investing field, was sufficiently obvious to make the Stock Exchange a vital force in the discussion. And looking back as we now can over twenty years, we see therein the most important development. Finance was just beginning to separate itself from industry and to obey a set of laws only mildly influenced by the events that swayed manufacturing and merchanting. This in itself was no assistance to the solution of the fiscal argument. There still remained a school of theorists who connected the so-called "periodic" credit cycles with Free Trade, much as others still attributed these events to the gold standard

THE STOCK EXCHANGE, BERLIN



or the organisation of the Bank of England. The important thing about the new era was that London and other British centres of financial activity seemed to have outlived such happenings. Nothing is so solid as the fact that from 1890 to 1914 the mere manipulation of the discount rate appeared to be sufficient to prevent anything in the nature of a panic, and the once customary suspension of the Bank Act did not again take place until 1914, when there was other justification. On the other hand, protectionist countries, the United States, Germany, France, suffered from a series of crises, not so definitely periodic in appearance as those from which England had suffered, but sufficiently marked to show that mere fiscal or currency arrangement had but little to do with the matter, except in so far as these were involved in the facility with which bankers were able to grant credit. Yet the comparative calm of the first post-Victorian years in England is all the more remarkable when we reflect that there was abundant matter to justify the protectionist campaign in at least two of the main markets dealt in on the Stock Exchange. The South African War seems to have dealt a mortal blow to that unique security known in England as Consols. Their price had fluctuated from time to time, not without reason, but the decline that set in with the twentieth century was no fluctuation. It was too gradual and continuous. Large additions had been made to the total amount inscribed, yet when it is reflected that very large amounts are held permanently in England, not only by individuals who hand them down to their successors, but by supposedly immortal corporations and charity trusts of all descriptions, it would have seemed more probable that the supply would have been short, as reviving trade and extremely stable conditions permitted of just those accumulations which have been for over a hundred years, and apparently still are, lodged in the

premier British security. Nor can it be urged that any similar investment offered a competing advantage.

We can hardly come to any other conclusion than that British Government credit, though unimpugned, was no longer the unique thing it had been. There were men alive who could remember default not merely by southern European States, but by integral States of the North American Republic. Now, all that Old World of conflicting royal families and semi-feudal pretension was settled down, its rates of interest fixed, its potentialities explored. Local government in the New World was equally stabilised. The attention of Europe had been diverted from such matters to far vaster and more complicated problems — how to feed its populations, how to maintain what was now called a balance of power, which meant a combination of enormous conscript armies, so marshalled by alliance or entente that, for the moment, none dare risk the plunge that should give to one nation or another the second place in the world, it being discovered, all too late, that the British Empire had secured the first place, under circumstances that rendered it extremely difficult to dislodge her. There remained, however, the vague and limitless designs of Russia on Asia, all the stronger on account of the persistent refusal to allow her to touch the Mediterranean in Europe, and the rebuff she had received in the Far East from Japan; there remained the steady and increasing permeation of the world by German trade and transport, incongruously vocative in eastward gestures, through Turkey, Bagdad-ward; and in France, the third Republic had settled solidly down, not without grave scandals arising from time to time on account of the too close connection between politics and finance, and soured by a deeply wounded national susceptibility, that had never forgotten Alsace Lorraine, and even more, the splendour of a

previous century. Thus arranged, the peace of Europe during these years was immensely more expensive than many a war has been, and demanded and obtained the strict administration and complete organisation of the various national debts by which alone such a situation could be maintained, and which embraced the ever more difficult task of agreeing not to take advantage of the situation of the Turkish Empire, which, again, had to be supported by loans. Across the sea, America had passed through the troublesome period of currency debate, "colonial" expansion, and the tragic end of the McKinley régime into a period of great prosperity. It will be seen, therefore, how unnecessary it had now become for the Elector of Hesse-Cassel, could he have arisen from the grave, to place his reserves for safe custody in Consols. The price sagged solemnly.

At the same time, a dissimilar set of circumstances was having a like effect on the next most important of British markets, that of Home Rails. Next to Consols, these had become a legend in the growth of the England that showed the whole civilised world how preferable was the wise investment in suitable funds of the savings of a lifetime, the provision for the future or the deposit of charitable moneys, rather than the hoarding of them in an old stocking or treasurer's box. Generally speaking, British railways reached their highest point of prosperity in the 'nineties, and, during the close of the century and the change in the realm, had begun to droop. It may be doubted if they had really ever overcome their original over-capitalisation. At first they were a novelty and wild in finance. Then — this was their best period — they became recognised as a necessity, and were well — if conservatively — organised. But the process had been so slow that it seemed impossible for them to forget their brief heyday towards the end of Victoria's

reign, and the demands of the public on the one hand, the cost of maintenance and renewal and the determined organisation of their employés, all combined to raise their costs. A good many specious reasons have been given for their subsequent history, but outside all arguments stands the fact that they had become a sanctioned national monopoly and were therefore susceptible to the well-known psychology of such undertakings. With the market in industrial shares, that was, in various ramifications, now making itself felt as a large part of the horizon of financial speculation, no such difficulty existed. The restricted capitalisation, comparatively small number of shareholders, lighter burden of original charges, make it possible for a shareholder to pick and choose among such securities, take up and discard such investment or speculative holding. But the very structure of the great railway companies forbade this. Together with the National Debt, they are of a size and age that prevent the individual holder from exercising much effect upon their quotation. And even in the mass, what is he (or so frequently she) to do?

Twenty years ago the "investing public" was only beginning to be educated, the purely speculative operator still comparatively limited in scope and ideas. The latter, as a matter of fact, fared the better. The recrudescence of mining activity, this time in South Africa, gave him an opportunity which lay outside the narrow scope of railway fluctuation, and more lately, the greatly increased use of rubber and oil stimulated the foundation, or reorganisation of a number of plantation and well-sinking or refining companies. On the other hand, the class of moneyed persons who now became more definitely known as the investing public had, at that time, little resource outside the British funds and the railway stocks to which they were accustomed, unless

it were in the municipal and other local issues which are really only one remove in nature from Government obligations.

This leads us to consider the composition of the section of the general public who, at this period, became possessed of surplus funds. Great credit is due to those writers responsible for improving upon the description “speculator” applied to those (usually professional operators) who buy or sell stock-exchange securities which they will never own or have never possessed, with the intention of selling again or buying back, at a difference representing their profit, while leaving the description “investor” to include only those who purchase in order to live upon dividends. This had been concise and admirable for the specialised inquirer into such matters, but from a more general standpoint it must not be forgotten that, in fact, the distinction is hardly so clear cut. Most operators probably have some permanent investment outside their daily operations. The condition of the briefly described “investing” class is even more complicated. Probably they do actually accept delivery of their purchases, and while not unwilling to see the value of their holdings rise, human nature being what it is, have never contemplated a fall below the price they have paid. Nothing else will account for the large quantities of individual or corporate funds lodged in Consols and railway stocks at a period when the former, at least, had stood above par for many years and the latter were regarded as not only “safe” (*i.e.* certain to maintain their price) but likely to increase their dividend slowly but surely. Even the large amounts so classified do not by any means account for the immense and evergrowing totals of Government loans and capital of the great transport companies that were taken up.

At the beginning of the twentieth century, ancient senti-

ment as to the holding of wealth in the form of land, though waning, was by no means extinct. For a century already England, rather than Scotland or Ireland, had ceased to be a land of small holders, but the actual break-up of landed property had hardly begun in volume. A further stabilising factor was the local lawyer, in all the provincial towns, who, in the winding-up of estates and the management of various funds coming into his charge, would act as a miniature exchange, advising the loan of surplus sums on mortgage to neighbouring borrowers. But the point at which the holding of land enters into the speculative field was emphasised by the phenomenal growth of the great towns. Thus land which for centuries had had no other than an agricultural value, which decreased, not intrinsically, but owing to the rise of industrial values above those possible to agriculture, now in revenge began to command very high prices as "accommodation" lands, that is to say, speculative material for the extension of the neighbouring town, and later even for the individual factory or transport facility. So marked was this fluctuation in value that it was proposed, under the Budget of 1910, to tax this "unearned increment." Complicated legislation followed, which has, however, proved extremely difficult of administration.

Farther down in the social scale, a habit of saving had long been inculcated, with indirect but all-important effects upon the speculative market. Early in the nineteenth century humble societies and clubs had begun to appear, at first chiefly with the object of ensuring burial according to the rites of sects, which at that time still suffered from various disabilities, or under more decent conditions than was possible in the seven-hundred-year-old parish churchyards, or in better style than many a widow's pittance would permit. To this were early added sick and old-age schemes, and,

finally, the very considerable coöperative trading movement was set on foot. Some of these societies employed their funds locally, upon mortgages or in the objects for which they were instituted, but all tended to accumulate a reserve, which was most likely to be placed in Consols, though, from the 'eighties on, the institution of municipal and other local bodies with borrowing powers added a certain variety of other stocks which were sometimes held, owing to local sentiment, instead of the premier security. Even more true was this of the network of savings banks that had sprung up all over the place, small but growing banks of deposit, giving interest on lodgments, conducting minor operations for their clients, and keeping their reserves in one of the stocks which now became dominated by legislation as "Trustee" stocks, that is those in which a trustee may place the funds committed to his charge without fear of being called to account for subsequent loss. Meanwhile the only strictly national trading venture, the General Post Office, had organised its own savings bank, the funds of which were held entirely in Consols.

But apart from the special sanction naturally accorded to this latter, during the first decade of the twentieth century, all these activities received, in one form or another, Government aid or encouragement. Thus the United Kingdom became the earliest and most intensively organised of all nations upon a credit basis, the most quickly weaned from the habit of hoarding coin. And the decline in Consols and other senior stocks fell less hardly on a public so constituted than it would have done upon individuals. In fact, in the case of individual holdings, many tragic instances remain to this day.

This further complicated the ideas conveyed by the loosely used words "speculator" and "investor", the in-

vestor now having to face a fall of twenty to thirty per cent. in the capital value of his holding. And involved in these tendencies was the very gradual effect of the progressive reduction of the interest on Consols from three per cent. to two and three fourths, and finally, two and one half per cent., carried out over a period of twenty years under the Goschen scheme.

It was against such a situation that the importance of the United States became increasingly felt during the pre-war years of the twentieth century. While Great Britain was struggling out of the entanglements of the Boer War, only to become involved in the unheard-of expenditure of the armaments race, never completely satisfied by large additional taxation, and maintaining such composure as was possible, in the face of the drooping prices of heretofore undoubted national securities, only to receive the fresh shocks of increasingly insistent labour demands and the mainly abortive tariff controversy, the citizens of the North American republic entered upon the new century in a period of unprecedented prosperity. It could not be expected that the general attitude toward the holding of credit obligations should be the same. National history, and even national psychology, showed an ever wider divergence, and the persistence of English speech and names among the more prominent citizens, and the use of some of the old weights and measures, ill served to conceal the fact. It is probably more difficult for an American than for a Briton to distinguish accurately between speculation and investment.

True, there had grown up in the States a vast landed interest of comparatively small agricultural proprietors, but even in the real estate market, influences similar to those at work in England were more prone to make landed property the object of speculation proper, rather than investment.

There was a yet more startling growth round the towns, and there was that phase of rapid development of new districts natural to so large a country, which the British Isles had passed through a century earlier.

Above all, in finance, there was the avid restlessness of the national temperament acting upon the far more recent memory of abrogated specie payments, of currency controversy, and even of the suspension of interest in State obligations, all combining to preclude the setting up of any American stock upon the pinnacle that Consols had enjoyed in Britain. The testimony was even more literal than that. Pratt quotes the words of Jay Gould, under examination (and who should know better!): "People will deal in chance. Your minister, doctor, barber, all have the same interest in 'Speculation'." Clearly the veteran warrior of the New York Stock Exchange, the maker and wrecker of who knows what great schemes, did not mean that the mass of middle-class men in America were professional operators. What he did mean was exactly the conclusion that the present section of this work strives to demonstrate, that the speculative faculty is extremely widespread, seldom to be found in its pure form. Again, we read: "Most investors who pay outright for their securities are willing to sell at a profit." Precisely, and it might be added that, as in the case of British Consols, however certain they may consider the continuance of the interest upon their holding to be, even though at rates very gradually reduced, there does come a time, in the long run, at which a steady continuous fall in the price of such a holding does begin to make its possessors consider selling, and this time probably comes earlier in the United States than in conservative Britain.

Another quotation from the same work is most illuminating: "A Speculator buys stocks as a merchant in Credit."

It follows that there is a very close analogy between the actions of a merchant in ordinary commercial goods and one in credit instruments. And this is apparent in the history of the United States between 1898 and 1907. These were most prosperous years, yet they ended once more in disaster. The striking point is that amid thickening apprehension and a gradual stiffening as of middle age, Great Britain avoided anything approaching a panic, during this period. The so-called periodicity of the credit cycle had ceased to function. In the United States the theory had never been driven to the same length. Apart from national difficulties implicit in war time, the republic had shared in the world-panic of 1837-1839, partially in that of 1857, but the troubles of the latter sixties, and above all in 1873 and 1893, had certainly not synchronised with European depression. And there was beginning to grow up that collective intelligence which was standing London in such good stead, the means, the knowledge, the will to foresee, minimise, and render harmless the impact of panic-spreading news. Pratt remarks upon the stability shown in 1901, when, on the top of a steel-workers' strike came the assassination of President McKinley. A pool was organised among the banks, and the situation was artificially supported. The requisite sentiment was thus generated, and proved stronger than the antagonistic negative or panic sentiment natural as a result of these events, and the danger was of a comparatively short duration. Yet comparison of the figures shows how much more serious was the situation than that which concluded the Garfield régime in 1881.

President McKinley was shot on Friday, September 6, 1901. The effect was instantaneous, and more serious than in the case of the Garfield assassination. Owing to measures taken, a certain recovery was registered in the prices of

EFFECT OF THE SHOOTING OF PRESIDENT McKINLEY
AND OF HIS DEATH

| Stock | SEPTEMBER 6 | | | SEPTEMBER 9 | | | SEPTEMBER 17 | | |
|------------------------|-------------|------|-----------------|---------------|-----------------|------|--------------|-----------------|-----------------|
| | Sales | Adv. | Dec. | Sales | Adv. | Dec. | Sales | Adv. | Dec. |
| Amalgamated . . . | 28,600 | .. | 6 | 30,100 | 2 $\frac{7}{8}$ | .. | 69,400 | .. | 2 $\frac{3}{4}$ |
| Amal. Smelting . . . | 7,900 | .. | 3 $\frac{1}{2}$ | 9,600 | 2 $\frac{3}{8}$ | .. | 1,700 | .. | 1 $\frac{1}{2}$ |
| Anaconda | 2,600 | .. | 2 $\frac{1}{2}$ | 2,700 | 1 $\frac{3}{4}$ | .. | 1,800 | .. | $\frac{1}{2}$ |
| Atchison T. S. . . . | 53,600 | .. | 5 $\frac{1}{4}$ | 62,900 | 3 $\frac{1}{2}$ | .. | 33,400 | .. | $\frac{7}{8}$ |
| Baltimore & Ohio . . | 4,900 | .. | 6 $\frac{3}{4}$ | 4,600 | 4 | .. | 3,900 | $\frac{1}{4}$ | .. |
| B. R. T. | 11,900 | .. | 4 $\frac{3}{4}$ | 15,400 | 2 $\frac{7}{8}$ | .. | 9,100 | .. | 1 $\frac{1}{8}$ |
| Chicago Gt. West . . | 3,600 | .. | 2 | 4,200 | 1 $\frac{3}{8}$ | .. | 3,400 | .. | $\frac{1}{8}$ |
| Chesapeak & Ohio . . | 3,100 | .. | 3 $\frac{3}{4}$ | 3,600 | 2 $\frac{1}{4}$ | .. | 3,900 | .. | 5 $\frac{5}{8}$ |
| Erie Com. | 39,100 | .. | 3 $\frac{3}{4}$ | 86,500 | 2 $\frac{3}{8}$ | .. | 44,200 | .. | $\frac{1}{8}$ |
| Gen. Electric | 400 | .. | 12 | 1,100 | 7 $\frac{1}{2}$ | .. | 140 | $\frac{3}{4}$ | .. |
| Leather Com. | 4,100 | .. | 1 | 5,200 | $\frac{3}{4}$ | .. | 7,000 | $\frac{1}{8}$ | .. |
| Louis & Nash | 10,200 | .. | 3 $\frac{3}{4}$ | 11,000 | 2 $\frac{1}{8}$ | .. | 8,300 | .. | $\frac{1}{4}$ |
| Manhattan | 15,700 | .. | 4 | 12,000 | 3 | .. | 47,600 | $\frac{3}{8}$ | .. |
| Metropolitan | 1,900 | .. | 5 $\frac{1}{2}$ | 3,300 | 2 $\frac{1}{4}$ | .. | 4,300 | .. | 1 $\frac{3}{8}$ |
| Mo., Pacific | 11,100 | .. | 5 $\frac{1}{4}$ | 12,400 | 1 $\frac{7}{8}$ | .. | 22,200 | $\frac{5}{8}$ | .. |
| N. Y. Central | 4,900 | .. | 5 $\frac{1}{4}$ | 3,000 | 1 $\frac{3}{4}$ | .. | 3,600 | .. | 1 $\frac{1}{8}$ |
| North & West | 14,900 | .. | 4 $\frac{1}{2}$ | 6,200 | 2 $\frac{3}{4}$ | .. | 8,600 | .. | $\frac{1}{8}$ |
| N. Y., O. & W. . . . | 7,600 | .. | 2 $\frac{3}{4}$ | 15,300 | 1 $\frac{1}{2}$ | .. | 6,900 | .. | $\frac{1}{8}$ |
| Pennsylvan. | 27,800 | .. | 4 $\frac{3}{4}$ | 16,800 | 2 $\frac{3}{4}$ | .. | 7,600 | .. | $\frac{1}{2}$ |
| Peoples Gas | 5,600 | .. | 3 $\frac{3}{4}$ | 5,600 | 2 $\frac{1}{2}$ | .. | 9,800 | .. | $\frac{3}{8}$ |
| Reading Com. | 11,200 | .. | 4 | 11,600 | 1 $\frac{3}{4}$ | .. | 44,800 | .. | $\frac{1}{4}$ |
| Rock Island | 2,600 | .. | 5 $\frac{1}{2}$ | 2,200 | 4 | .. | 4,600 | 2 | .. |
| Rubber Com. | 700 | .. | 1 $\frac{1}{4}$ | not available | | | | | |
| St. Paul | 32,600 | .. | 8 $\frac{1}{2}$ | 74,100 | 6 $\frac{1}{2}$ | .. | 64,700 | $\frac{1}{4}$ | .. |
| S. Pacific | 40,100 | .. | 4 $\frac{1}{2}$ | 58,100 | 3 | .. | 32,100 | .. | $\frac{1}{4}$ |
| So. Railway | 36,400 | .. | 2 $\frac{7}{8}$ | 27,100 | 1 $\frac{5}{8}$ | .. | 29,300 | .. | $\frac{3}{8}$ |
| Sugar Com. | 10,700 | .. | 5 $\frac{3}{4}$ | 3,000 | 2 $\frac{3}{4}$ | .. | 13,500 | 1 $\frac{1}{4}$ | .. |
| Tenn. C. & I. | 8,400 | .. | 5 $\frac{3}{4}$ | 7,100 | 2 $\frac{3}{4}$ | .. | 4,100 | .. | 1 |
| Texas Pacific | 5,600 | .. | 5 $\frac{1}{4}$ | 3,900 | 2 $\frac{1}{4}$ | .. | 2,600 | .. | $\frac{3}{8}$ |
| Un. Pacific | 62,100 | .. | 5 $\frac{1}{2}$ | 80,100 | 2 $\frac{5}{8}$ | .. | 110,800 | .. | $\frac{1}{8}$ |
| U. S. Steel | 61,700 | .. | 3 $\frac{1}{2}$ | 45,400 | 2 | .. | 31,900 | .. | $\frac{1}{2}$ |
| West Union | 1,200 | .. | 2 $\frac{1}{4}$ | 3,100 | $\frac{3}{4}$ | .. | 12,200 | $\frac{7}{8}$ | .. |

September 9, and his death on September 14 had a less depressing effect than the fear of it had had.

THE GARFIELD SATURDAY

No sensational declines in stock market prices. Garfield was shot on Saturday, July 2, 1881.

This makes all the more extraordinary the very serious collapse of 1907, which besides was far more than a mere Stock Exchange crisis. In fact the New York Stock Exchange had largely liquidated its bull position and the infla-

| STOCK | DECLINE | STOCK | DECLINE |
|-------------------------|-----------------|------------------------|-----------------|
| Central of N. J. . . . | 4 $\frac{1}{8}$ | Del. L. & W. | 3 $\frac{1}{2}$ |
| Central Pacific | 5 $\frac{1}{8}$ | Denver & Rio G. . . . | 3 $\frac{1}{8}$ |
| C. B. & Quincy | 2 | Lake Shore | 3 $\frac{3}{8}$ |
| C. M. St. P. | 5 $\frac{1}{2}$ | Louis & Nash | 4 $\frac{3}{8}$ |
| Chic. & N. W. | 4 $\frac{1}{2}$ | Mis. K. & Tex. | 5 $\frac{5}{8}$ |

tion came from outside, from remoter portions of the continent. Apart from such general considerations, the only sufficient reason for the very large losses experienced can perhaps be traced in the intensified campaign of Government restriction and investigation waged with the great trading corporations, which has become one of the most continuous influences in American financial affairs.

Like all occurrences of its kind — and it was the last to produce the well-known nineteenth-century effect upon the gradually matriculating means and consciousness of the financial publics of the foremost nations of the twentieth century — it passed, and with the exception of individual hardship has left, as we look back at it from a distance of twenty years in time, and seemingly centuries in experience, little trace, unless it is the effect that Pratt remarks as noticeable in 1914, that leading and responsible men had “done a lot of thinking” in the interval. It stands, therefore, as a potential warning to the student, of the extreme newness and callousness of the apparently solid and reasonable organisation of great modern financial centres. It is even one more addition to the evidence that credit is still, after all its recent evolution, its technical adaptability, and the education up to it of the great masses of modern populations who can have

only a humble share in handling its complicated machinery, a matter of sentiment, and of sentiment only. While it may be made to withstand the most direct and obvious shocks, simply because they are obvious, and call out at once available precaution and a strong banding together of dispersed and even inimical interests, as any physical disaster, fire, or shipwreck may do, it is yet as vulnerable as ever to any attack which does not directly and solidly mass the forces of stability in united resistance.

The New York Stock Exchange at this time, passing through its last natural crisis, was a body of 1100 members, with a recognised establishment dating from 1869. It was a national institution, and the important exchanges of Boston, Chicago, Pittsburg, Philadelphia, and St. Louis depended on it, just as the provincial exchanges of Great Britain or France, while possessing certain local lines in which they can fix prices, depended in the main on the great metropolitan market. It differed from London in having a daily clearance instead of a fortnightly settlement, but against this must be set the fact that it has very highly organised loan facilities, and indeed, apart from such technical distinctions, the differences between the two centres are fewer and smaller than one might suppose. In the main, the owner of surplus wealth in America can have no more difficulty in placing it in easily negotiable securities than his like in England.

Pratt observes, however, that in 1903 London was still the great centre, the Exchange of the world, while New York acted in that capacity for half the world. At that date the number and amount of foreign national loans quoted in New York was very limited, even if British Consols are included, while, on the other hand, there still remained considerable sections open in European exchanges, at which North American railway and other shares were dealt in.

In fact, at that date, any minor nation that desired to finance itself would not have approached New York at all, and not necessarily London. Paris was still a very considerable market in such loans, and as the net of Alliance *versus* Entente grew closer and ever closer, Paris took over increasingly the large demands of Russia. Matters even went farther than this, for there was still sentiment alive regarding the Balkans, and when, in 1912, the war between the small Slav States and Turkey broke out, an awkward but confined French crisis marked the fact. In the main, however, the comparatively limited scope of the Paris Bourse and the high level of individual skill does not render it liable to such attacks. Since its foundation by Napoleon, the institution had had its dark days owing to the changes in the régime, and its crises, less periodic than those of London, had been mainly caused by artificial means. It had shared in the troubles of 1837 and the mid-'fifties, but diverged more into paths of its own, maintaining a marked solidity during the political upheaval of 1871. Under the Third Republic, France suffered from occasional war scares, and notably from the Panama scandal, but by this time the national character, and the psychology of the Paris Stock Exchange in particular, were taking on their modern form. Nothing can be farther from the truth than the conventional stage and journal view of the Frenchman as a flighty, unstable creature. If he has a fault it is too solid and rigid a formality. Thus the Paris Stock Exchange was limited to a membership of 70, regulated by a revision in 1890 of a constitution granted in 1885. Naturally there is here scope for a large outside broking fraternity, for the actual seats in the Bourse are only obtainable by introduction, which has inevitably become a marketable privilege, and are, moreover, only held by making a substantial cautionary deposit. The most striking difference



THE BOURSE, PARIS

between it and other national exchanges is the characteristic one of its quasi-official aspect. The members are "fonctionnaires." And during the early years of the century but little knowledge of their work or even of their presence filtered through to the great mass of the French people, permanently clamped down to the land. There was just the beginning, noticeable in current literature, of an attempt to wean them from hoarding, and over the vast tracts of agricultural, grazing, and vine-growing France the actual means most often turned out to be the village lawyer, far more powerful among the peasants than any similar type could be in Great Britain or the United States. Side by side with him worked a distinctive person, the "courtier" or financial bagman, actually "on the road" with a portfolio of those bearer securities so much more favoured at this time in France than inscribed stock. Thus it was that, at the end of the period, so much of the savings of France were committed to the exigencies of the Russian campaign, and thus had the indemnity demanded by Germany been cleared off, forty years before, in an incredibly short space of time. To the mind used to British or American town life, the streets of offices, the frequent banks and financial institutions, the habit of handling paper, this must always seem astonishing, as also does the fact that so much of France seems to have remained in the era of widespread landed wealth in small parcels, with a currency made up of the notes of the well-managed Bank of France, and a comparatively restricted cheque circulation. But the figures of the Paris Bourse still bear out the position which Pratt allocates to it at this time, second in international finance, and obviously sufficing for the extra credit and flotation facilities needed for its own dispersed — and not very obviously commercial — national activity.

One of the remarkable features of the gradual strengthen-

ing of the whole system of handling marketable securities throughout the British Empire was the prestige which now began to envelope the limited liability company. Nothing quite like it can be found at any time since the general mediæval acceptance of the Guild as an institution. Nothing like it existed elsewhere. It was neither the weapon of such virulent acquisitiveness nor yet the object of so much discussion as the Trust System of America. It was much earlier in development and wider in its rapid adoption than the *société anonyme* or the *actien gesellschaft* of the Continent of Europe. It was, in fact, a recognised institution, and that is what Britain demands of any form of trading or other association of individuals. Of this we have the most striking and unbiased evidence. It is a commonplace that lookers-on see most of the game. We cannot then have a clearer idea of what the Company Limited had come to mean than by going outside the world of theory in economics and that of practical business, and looking for the social place occupied by such a body. In what relation to British society did it arise? We shall have no difficulty in finding out. Britain, but more especially England, and particularly London, rang during the 'eighties and 'nineties with a species of entertainment which had its forerunners, but dwarfed them by its immense vogue, and which has had its imitators since, who have striven in vain to recapture its bewildering quality. But it stands alone, for it belonged to its time — the 'eighties and 'nineties — and to its place, not so much the geographical spot at which it was to be witnessed, as its social niche. The England of those days tolerated very equably its landed aristocracy. They were neither the object of derision or suspicion as in France, nor of wonder and envy as in America. They just existed, ornamental, solid, and aloof. The proletariat had not become vocative as it did twenty years later.

The very term Labour was practically unknown. The vitality of England lay in the successful merchant classes of London, and their provincial imitators, who were just changing from the Dombey's and Newcomes of an earlier day to the Forsytes of Mr. Galsworthy. Before audiences composed of these were performed a series of what were called comic operas — satires set to music, written by a lawyer, W. S. Gilbert, and composed by a much-patronised musician, Arthur Sullivan. The ensemble is vividly instructive as to the period. The cadence of Gilbert's verse, the tempos of Sullivan, both owing something to the rhythm of the vibration of a railway carriage, portrayed the existing England to the mild and inoffensive laughter of the class that most intimately was England. The House of Lords, the House of Commons, the Army, the Navy, the Law, the Police, Literature, and the Drama formed successively the background for gay scenes and decorous dancing. There was no bite in the sarcasm, and the deeper emotions can hardly have been stirred by the music. Could a formal-minded Frenchman or an insatiable American have been induced to sit through such an evening? They might either or both have concluded that the main institutions of England were false and tyrannous and bitterly resented. But the natives of the island knew better. Undoubtedly there was a good deal of humbug in the public life and activities of the time. But it was humbug which worked. That was all that they asked of it. It provided a harmless substitute for corruption, and under it they were extremely prosperous. One of the last of the series was entitled "Utopia Limited." In it was satirised the Company Limited. The story purported to represent the taking over of a fictitious State under the regulations of the Limited Liability Acts. And amid the complacent laughter of the stalls, to one of those tunes that render it impossible to

keep the feet still, a character described the procedure as it was known, smiled at, winked at, and easily condoned by those who made use of it increasingly.

Some seven men form an association
(If possible all Peers and Baronets),
They start off with a public declaration
To what extent they mean to pay their debts,
That's called their capital; if they are wary
They will not quote it at a sum immense.
The figure's immaterial, it may vary
From eighteen million down to eighteen pence.
I should put it rather low: the good sense of doing so
Will be evident at once to any debtor,
When it's left to you to say what amount you mean to pay,
Why, the lower you can put it at, the better.

They then proceed to trade with all who'll trust 'em,
Quite irrespective of their capital,
(It's shady, but it's sanctified by custom)
Bank, Railway, Loan, and Panama Canal.
You can't embark on trading too tremendous —
It's strictly fair, and based on common sense —
If you succeed your profits are stupendous,
And if you fail, bang goes your eighteen pence.

Make the money-spinner spin! For you only stand to win,
And you'll never with dishonesty be twitted,
For nobody can know, to a million or so
To what extent your capital's committed!

The satire is as true to-day as it was then, but nobody laughs. The description is accurate enough. The procedure remains identical. The seven statutory individuals are nowadays insignificant clerks for whom one share is subscribed by the promoters. The titles of landed aristocracy still bestar the list of directors. The services rendered by the holders pass no test, it still being within the right of

the public to decline to subscribe for, or subsequently to buy shares, unless its members wish to. The public shows no reluctance to invest in concerns in which the chief qualification of a director is a handle to his name, and there are agencies at which introductions can be obtained which make the supply of titled directors a matter of routine. There is nothing to limit the amount or denomination of shares of which the capital is composed, the only safeguard that has come into force since Gilbert wrote the above lines lying in the fact that a company whose capital was shown as eighteen pence would find it difficult to obtain quotation upon the Stock Exchange. The company so formed does, then, "proceed to trade with all who'll trust 'em." True, there linger yet in some privileged corners of the commercial body instances in which it is necessary to have an introduction, but such are not the usual or indispensable preliminaries. Few companies in England are founded to operate any trade *ab initio*, they are usually really efforts to recapitalise a business where the original private proprietor desires to withdraw a whole or part of his own money, with which he has organised a process, obtained a patent, or erected a plant, either because he has been successful and become prosperous and logically expects that such a state of things cannot continue, or because he has been unsuccessful and desires to pass on as much of the loss as possible to some one else. No difficulty as to actual trading is likely to arise, and the extreme publicity now given to every prospectus, the criticism poured forth in daily papers by means of the abundant, more or less independent money articles — for although individual writers of such may have prejudices, be liable to human error, be accessible through human weakness to various forms of persuasion, these defects are not permanent or general and count as much one way as the other — all so advantage the

investor or part speculator that he has only himself to blame if he loses more than that small percentage of his capital which every reasonable man allows for, as the natural wastage incidental to holding any form of property whatever, — depreciation, in fact.

As the individual shareholder became increasingly helpless, he acquired other safeguards. In most chartered or limited companies his choice was no longer restricted to ordinary shares. There were gradually added in most cases categories of debenture or preference capital, in which he had definite legal security, or the more problematical but tangible advantage of seniority.

In the case of railways there were guaranteed stocks, in industrial and other markets there were debentures, actual mortgages upon company property, or cumulative provisions attached to preference shares, which ensured at least some sort of compensating arrangement being offered to him if the interest fell into arrears. There was always open to him the main line of retreat into British or other Government holdings, which, with a few exceptions, and in spite of a downward trend of prices, certainly were held to be safe from practically everything but earthquake, and so confident was the shareholder, in the main, that he showed no great anxiety to avail himself of this last resort. The long-continued toleration of names of landed, and particularly titled persons, on the boards of limited companies is probably best explicable by the inherent but not altogether wrong-headed snobbery still so strong in England and, in a lesser degree, throughout Britain.

It was not only felt that a gentleman must have certain scruples. It was also known that, as a title was practically inseparable from some sort of solid property, members of such a class were unlikely to run away, figuratively or actu-

ally, or at the worst, unlikely to run far. Instances have even been known of a chairman, famous in other capacities than finance, being received with acclamation, or even with merely tacit support, on occasions when he had been obliged to make the most disheartening announcements at general meetings.

Since the 'nineties, in fact, the moneyed interest in Great Britain, from the very wealthy, the well-known, the director, and larger holder class, down through the specialist operator, the stockbroking and jobbing profession, to the great public of small shareholders, became increasingly solid and conservative, in the wider sense of the word, as well as in its particular political sense. Mixed up inevitably with this tendency was a good deal of common sense and an increased insensitiveness to panic. From time to time the old phenomena would present itself in the form of some individual, perilously famous, presently involved in major or minor scandal, law proceedings, or sensational bankruptcy. Or some market would experience a boom — that in rubber in 1911 is a notable example. But the second and third acts of the well-worn drama were never played out, and the days of 1720, 1866, or even 1890 never returned. Perhaps markets had become too numerous or too wide. Perhaps shareholders were already inoculated against embarking their all in one or two connected concerns, or under one individual's leading. Whatever may have been the exact reasons, the would-be imitators of Law and Aislabie, Pereire and Hudson, never filled the principal parts as the originals had done.

Further, a great deal of provincial marketing of stocks and shares was done through the medium of brokers, fed by bankers and lawyers of the county or manufacturing town, all of whom, for the sake of their own reputations, and also actuated, one may hope, by sentiments of professional duty

and public policy, gave increasingly staid and balanced advice to their clients. One thing is certain, the old-fashioned panic failed to materialise. This is easier to understand in the case of boom conditions that arose in one or another of the markets. Increasing education had perhaps instilled some general warnings, some vestiges of the old, oblique, critical suspicion of the stock and share market may have persisted. Men asked themselves why prices were so high, and whether they could so continue. When rubber rose above half a crown a pound there was a general sense that a commodity in common use could not continue to remain at such a figure, and that consequently share values must fall. Individual losses there must have been, but nothing approaching a national disaster. The professional element, no doubt, took care of itself. The amateur had never embarked too deeply or wholeheartedly. Thus, though buying and selling of stocks and shares increased yearly in volume, and always, we may be sure, with the intention of seeing a good return, and — or — some profit upon the capital engaged, and although the landed classes no longer looked down, and the merchant and manufacturing classes no longer looked askance (both were precluded from doing so by intimate participation), there came to be, as it were, a dim solidarity about all those who dealt, largely, professionally or meagrely in such traffic, and considering the historically short period that had elapsed since what we must consider the end of those upheavals called credit cycles, the stability and placidity of economic conditions in Great Britain were an encouraging spectacle, at least superficially. Making allowance for the vastly different conditions, a possibly analogous process could be discerned in the United States, where the moneyed interest became increasingly identified with the ruling political party and administrative body. Manipulation of the mar-

ket, the apparently inherited scalp-hunting mentality of well-known individuals, and of corporations that from year to year increased in size, and in implacable exercise of autocratic power, actually produced less disturbance rather than more. From time to time these qualities became so obvious that legislative movements were set on foot with the object of controlling them, but another factor in the conditions of life in North America and in a very much later and more limited degree in the southern portion of the Continent, began to have an overpowering effect.

We have already noticed that the defect, if it may be so called, that strikes the European in his contact with the citizens of the New World, is their lack of defined objective, of some limit which, once reached, gives them a certain measure of reward and desire for static repose. Stated more graphically, there is not enough snobbery in the United States. The great figures of the American commodity and stock exchanges never retire, acquire a title, and become content to be received at court and write a book of reminiscences. They must go on, with difficulty increasing their enormous wealth, but constrained apparently to safeguard it. The suggestion has already been made that this is partly racial and climatic. But the point that concerns us at the moment is, that the net result of such a set of conditions might be of very grave import had not the countervailing influence of wide, mounting, and continuous prosperity been the dominating factor in North America from 1908 onward. Thus, for such extremely divergent reasons, a similar stability and placidity coincided in the two English-speaking groups of nations, and for a yet other set of reasons, France appeared to have outlived her defiant experimentalism and to have settled down to an equable support of her proportionately enormous national obligation.

On January 24, 1901, the Stock Exchange Official List appeared in London with black margins. Thus did the gigantic financial organisation which had come to perfection during the life of the sovereign who had just passed away, go into mourning for her. Consols, amounting to £500,000,000, stood slightly above ninety-six, a figure that they never touched again. It is true that at that time they paid two and three fourths per cent. interest, and that in the following year, under the scheme already mentioned, this was reduced to two and a half per cent. Yet the decline was extremely gradual, and there was certainly no definite feeling in British financial circles that an era had passed. The decline over the next few days was imperceptible, and over the following six months only three points per £100 of stock. True, there had been issued some £30,000,000 of South African War Loan, and other categories outstanding amounted to about £100,000,000. Yet even with this addition the marketable public debt of Great Britain was only slightly larger than in 1815, and this level, seen against the increase — slow and steady in the size of the population, sharp and permanent in all the amenities of life — renders the total relatively insignificant.

Following upon national issues, the British investor of that date had next his choice of some 250 British municipal and colonial issues in about equal proportions. The fact that strikes one to-day is the relatively small amount to which most municipalities had then ventured to borrow, only a dozen of these exceeding £1,000,000 in amount, only London exceeding £10,000,000. Here, at any rate, the United States, possibly spurred by necessity, and certainly aided by a more progressive outlook, were already leading, although the bonds of American townships were not officially quoted in London at all, and one must believe tended to be held locally

rather than to constitute a national market. British colonies, on the other hand, had already begun to borrow to a considerable extent, New Zealand having the largest individual loan, but this was on account of the fact that this colony was, at that time, the largest centralised authority. There then followed foreign stocks or bonds, a chequered list, whose foundation we have examined, and which was still marked with certain unpaid coupons and other doubtful spots. Only a score of transactions were shown in this section on an average day of that year, contrasting violently with the fury of some of the earlier periods of this market.

It is interesting also to note, between the names of Baring and Rothschild, the appearance of the Deutsche Bank as the issuer of some of these loans.

It is noteworthy, also, that Russia was still borrowing more cheaply than Japan. British Railway ordinary stocks were by far the most active market. Handsome dividends were still being declared, and many issues stood above par. There are also the imposing list of their debentures, principally rated at three or four per cent., their guaranteed issues, and preference stocks with dividends contingent on the profit of each separate year. The figures look strange now, belonging as they do to a time when three per cent. was the average yield on British Government security, pre-deduction of tax being then a negligible consideration of but one shilling in the pound. Next to this come the Indian Rails and those in British possessions, showing declines in value in some cases, but still held in great esteem, as is evidenced by the close correspondence between the yield obtainable and that on Consols, and also by the comparatively small number of transactions, which argues that large blocks of such securities were held for more or less permanent investment purposes.

Next, we find listed American railway stocks and shares, in their native dollar currency, still a very favourite counter in London. Atchison, Topeka, Erie, Reading, Southern Pacific, and Union Pacific were all considerably dealt in, the professional interest being here stronger than the investing sentiment. A curious reminder of the difficulties American currency has experienced is shown by the division of railway bonds into dollar currency, gold, and sterling issues. Foreign Rails are an imposing list, but, except for Argentine issues, not a scene of very great activity. The ineradicable connection between London and the South American Republic is only one factor here, the other being the comparative prosperity of the country. In the main, it must be feared that the quiescence of this market is not due so much to investment firmly holding on to a desirable type of security, as to the fact that a certain section of the public had been landed with lines of these issues, and had found no means of disembarassing itself. Such, at least, is the argument to be drawn from the low level of the rare transactions.

Next come nearly 400 brewery and distillery issues, typical industry of the time, flourishing on the comparatively large mobilisation of troops for the South African War. The commercial and industrial section had, even at that date, nearly 800 names, though less than a score of these borrowed as much as £1,000,000 from the public. Colonial and foreign municipalities, land and analogous companies, investment trusts, all make a fair showing, and the list closes with small sections devoted to insurance, heavy metals, lighting, water, telegraph and 'phone, shipping, tea and coffee, and tramways, and omnibus. The mining section of only twenty names was naturally quiescent.

Such was the outlook in London, still the leading centre of financial speculation, at the commencement of the



A RAILWAY MEETING. EMOTION OF SHAREHOLDERS AT THE ANNOUNCEMENT OF A DIVIDEND OF $2\frac{1}{2}$ D.

THE RAILWAY MANIA

Emotion of Shareholders at the Announcement of a Dividend of $2\frac{1}{2}$ d.

twentieth century. Within the succeeding fourteen years, in spite of continued decline in the price of Consols, the Stock Exchange Official List was enlarged by four pages or one third of its previous bulk. Allowing for slight alterations in arrangement and in the marking of transactions, this shows that there was, to say the least, no diminution of business. Consols now stood at seventy-four, which represents a continuous fall, even when the reduction of interest to two and a half per cent. is considered. There were by this time considerable increases in the amounts borrowed by municipalities, the interval having been one of a great expansion of local activity and social legislation. Increases can also be traced in colonial government and municipal issues, and a far greater activity in the former, which may result from the spread of the imperialism of the period, while the quotations have, in most cases, readjusted themselves to agree with the yield on Consols. Ontario had by this time a dollar loan, and the whole section had a busier air. In the foreign section, Argentine, Chilean, and Chinese issues appeared in far greater number, while Japan had turned the tables on Russia, whose political history during the intervening years had begun to show how precarious was the situation of the tiny Europeanised bureaucracy above the great mass of people that filled half a continent. The result of the Balkan War was also reflected, Montenegro having now appeared in the list, Bulgarian and Serbian issues standing higher, while Turkish funds had been so reorganised as to make comparison impossible. The favouritism which North and South American Rails had so long enjoyed had distinctly waned over this period, both prices and number of transactions showing a decline. Another sign of the times is the fact that the older private banks bowed to the inevitable, and Barclays and Martin's had both found it advisable to be

officially "quoted", a marked change from the old exclusive attitude. Yet the choice of banking and discount shares open to the public does not, at this point, show great enlargement, for it must be remembered that against the new quotations inserted in the list was working the strong movement towards amalgamation which, only in its earlier stage in 1901, had in 1914 already assumed considerable proportions, though in no way comparable with that which we shall have to consider later. Another typical movement is to be found in the decline in brewery, if not in distillery shares. This may have been due to the increasing prospect of legislation regarding this industry, which, although comparatively remote in Great Britain, was sufficient to affect so sensitive a barometer as that provided by share quotations, partly to the natural decline following the boom by which this counter had benefited during the prosperity of the Diamond Jubilee decade, and the minor localised boom caused by the South African War, which mobilised the best drinkers into a more concentrated market for this product, and partly to definitely changing national psychology. It is significant that the senior stocks — debentures — had fallen in price commensurately with the ordinary issues, showing a saturation of the investment sentiment, as well as a decline in general favour. There was a marked shrinkage in the quotations of dock companies, the Surrey and London docks disappearing from the list, the causes found here being very remote questions of alteration of transport habits, the tonnage of ships, and greater landing facilities of new points.

The section of the list which had long been dominant, that denominated "Commercial and Industrial", had increased in size by one fifth during the period we are surveying, but again caution is needed here, for among the newer entries are many which denote increased financing, not necessarily in-

creased commercial and industrial production. The main elements in the increase of the section are to be found in the importance of London property, whether dwellings or shops, new foodstuffs, motors, tobacco, oil, and electrical construction of all sorts. Some iron and steel companies, some oil and telephone companies, had been removed to separate sections of the list, but not all, while, as in other departments, many old-established concerns, notably in Lancashire, were now seeking quotation, to which they would have been indifferent, if not positively averse, in the earlier list. The number of financial companies, and those interested in land, or in investment, had doubled, while that of iron, coal, and steel companies had trebled, though allowance must be made here for rearrangement which had transferred a number of names from the commercial and industrial list to the more precise designation. Nitrates and oils had now become sufficiently important to be allocated sections of their own. On the other hand, the rubber boom of 1911 had greatly extended the list of the section embracing plantation companies. Another section which had increased was that which includes tramways and omnibuses, and also that containing gas and electric lighting organisations. Here again we have, to no small extent, a reflection of the rise in the outlook of the general population, and the increased concentration into industrial areas and residential suburbs, where such facilities are possible, profitable, and necessary.

What general conclusions, if any, may we legitimately draw from such a comparison? The fourteen years here under review came after the high-water mark of prosperity in the United Kingdom, that may be dated round about 1896-1897. Of the earlier year, men still alive will remember that, as one of them lately said, "There was no cloud in the sky." Sentiment, as we have seen, plays an immense but obscure part in

the actual prices at which marketable securities change hands, and the increased solidarity of the spirit which surmounted the Barings crisis of 1890 had heaped upon it the spectacular triumph of the queen's Diamond Jubilee. Upon such a mentality descended the shadow of the South African War, increasing public expenditure and causing serious — if confined — disorganisation. Our period opens just as Great Britain was emerging from the phase characteristic of such events, and entering upon a new one of social amelioration. It is not wonderful, therefore, if we discern, in the change that took place in the principal market of financial speculation during this period, a mounting tide of business, influenced by an oblique drift due to certain definite currents. Finance was emerging in its pure state and dissociating itself from production. Thus in spite of labour troubles and increased competition, the banks and kindred institutions, the finance companies proper, and all Government obligations show an extensive increase in number, and an intensive one in multiplied transactions. This embraces the constant conversion of old private businesses into limited companies, the amalgamation of these, the organisation of new State and municipal loans, and of the proper credit facilities of remote parts of the earth. This partly caused and partly resulted from the general rise in the standard of living, but the interaction is so close that it is doubtful if one element can be said to precede the other. People who had walked to small private offices or works from houses lighted by candles or lamps, and situated within confined urban districts, now began to expect to go out by various means of mechanical transport to suburban residences, lighted by gas or electricity. Other members of the same body who had these amenities to sell, began to find the private capital, and still more private outlook, too limited to cope with the growing demand. The

motor industry with its affluents, oil and rubber, provides, perhaps, the most marked evidence of what was taking place, but the tendency was general. On the other hand, markets dependent directly on productivity, such as that in railways, showed declining prices, as with every year the individual demanded a greater ratio of comfort and convenience, not merely leisure and increased pay per day's work. There is further here the incalculable effect of early years of bad finance. Greater activity was shown in shipping and less in docks, the former remaining an industry to which a certain degree of private management was still applicable, while, to the latter, the new ideas of public control were found to be a more appropriate form.

These developments again act upon the preference for speculative issues, such as American Rails, though the vogue that these had enjoyed was always based to a considerable extent on professional operation. Thus the total effect was that of a higher capitalisation of the increasing population of the British Isles, and as the amount of landed property is obviously limited by the situation in the geographical sense, and as we know that no noticeable redistribution of land had by then taken place, it follows that the increase in figures representing the transactions that could take place through such a medium as the Stock Exchange, was an increase in credit, which in itself is merely an increase in the estimation in which the individual trading person or body is held. This is the unique, and it may be the lasting achievement of British civilisation. The currency basis that lay at the foundation of the structure thus added to was subject, during this period, to negligible changes. In theory, the vastly increased edifice depended upon the regulations that had been laid down in what might have been, for all practical purposes, another existence, the naïve and slightly pompous,

and wholly ineffectual theoretic liberalism of 1844. So archaic, indeed, was the style of financial architecture, that it might as well have been in the Middle Ages. The crucial fact — and it rests upon that sort of good fortune which was so kind to the England of Victoria, and even lasted into the reign of Edward the Peacemaker — was that the theory was almost entirely unchallenged, and when challenged was arbitrarily ignored.

In 1901-1914, however, no suspicion of a challenge threatened the foundations of the British credit system, although the time was one which, in addition to the changes in the habit of the speculative and investment market, was marked by the profoundest political upheavals since 1832, by very considerable anxiety as to the activities of Germany, and by quite the usual number of those foreign wars or remote colonial expeditions which inhabitants of Great Britain had long been accustomed to read about in the papers, and regard as part of the alleviation of the day's toil, in the form of news.

There is something ominous, almost fatal in this phase, as we look back at it, because we know the events to which it was the prelude. Yet signs were not wanting that the general condition of Utopia Limited, the management of the civilised States by great impersonal capital-controlling bodies, was actually in grave jeopardy. The prosperity of a few armament firms was a small benefit to set against the danger that threatened the delicate network of international loans by which the more backward States of Europe, Asia, and America were financed by the more civilised, by which remote colonies were connected with their parent countries, by which large blocks of North American and other industrial securities were held by Europeans. Yet the world of economics could no more separate itself from that of politics than the United States could preserve its non-interventionist doc-

trine in its purity, or Great Britain could return to its Victorian isolation. The point of strain lay between the nationalist organisation of the major States and the necessities and desires of their peoples. The urge of crowded populations not only to be fed, but to be inconvenienced in all those new ways that the developments of machinery laid open to them, made short work of the outworn trappings of landowning aristocracies, the medieval organisation of great empires. Imperial words about "shining armour" and close personal relationships between reigning sovereigns were powerless to guide, much less to stem, the concentrated thrust of that force vaguely known as Progress. King Edward VII. died with his work of conciliation incomplete. It may well be wondered if the task were not superhuman. The four years between his death and July, 1914, were occupied by a steeply sloping descent of events into the inevitable. The word Destiny sounds uncouth on modern lips, and what is Destiny but the sum total of an immense number of interacting human wills and habits? Yet no other word seems to fit the fate of the mainly pacific populations that were involved in the catastrophe of 1914. Certainly there was little animosity between the actual peoples of Great Britain and Germany. There were old wounded feelings in France, as any one who met exiled Alsatians in Switzerland or on the Riviera knows. It cannot be supposed that any large proportion of the Russian peasantry had any coherent opinion in the matter. On the other hand, the characteristic of the period was rather excessive preoccupation with internal problems.

In England the forward movement of 1906, instead of satisfying, seemed to have rekindled the appetite for social reform and collectivist legislation. The manual labour of the British Isles was, for the first time, organised and noticeably represented in Parliament, very considerable strikes occurred

while the Budget of 1910, with its old-age pensions and national insurance, was a landmark in the diversion of private reserves to public ends!

In Russia the domestic situation had been grave enough for a decade, and every sign of disintegration was present; it is hardly too much to say that the immense half-European Empire held together chiefly by inertia.

The diversity of race in Austria and the continual problem presented by her relations with the Balkan States, while properly speaking an internal matter, comes as near as anything to being the main actual cause of the collapse of the system of a century.

Thus with finance certainly dependent on peace, and a great proportion of the population engrossed in readjusting itself to new conditions of life brought about by mechanical and scientific discovery, the history of 1914 bears all the appearance of Fate. On the other hand, the actual issue was quite unpredictable and showed a most astonishing degree of human volition.

PART VI

THE NATURE OF A BARGAIN

ONE of the difficulties of writing history is that it is often impossible to estimate the importance of one period until we see the result of the events that mark it reflected in the next period. Thus the distinctive character of the years 1901 to 1914 cannot be felt until we pass that fatal day that enables us to describe those fourteen years as "pre-war." That is how they will be known so long as the present generation of Europeans lives, and they must always, one supposes, form the basis of comparison by which the reality of the catastrophe which so suddenly concluded them is to be assessed.

The suddenness of the events of the last week of July, 1914, caught the world of finance unprepared. This is a dangerous saying, for great and unfinished arguments have raged about the question of war guilt and preparedness. Whatever may have been the relative degrees of preparation, political and military, in the combatant countries, it is plain that in finance, whose most important centres were in Great Britain and North America, no vivid anticipation of what might happen had any place in the public mind. In Germany, France, and Russia there existed certain reserves of gold that were part rather of the military than the currency scheme. In the English-speaking nations even such provision was absent. Happily the shock had all the properties of a stunning blow. It is hardly too much to say that the markets were too paralysed for panic. The machinery of the foreign exchanges disappeared. The very nature of the emergency

legislation, hastily extemporised, the closing of the Stock Exchanges of London and New York, the abrogation, for the first time for fifty years, of the Bank of England Act, show how unprepared, probably how unpreparable, was the state of affairs which had grown up during the previous fourteen years, and more vaguely over the quarter-century since the beginning of the 'nineties. In fact, war on the scale of 1914-1918 had, among many others, this entirely new feature. It was utterly incompatible with contemporary finance. This change was greater than is often realised. France had recovered speedily, perhaps more speedily than Germany, from 1870. Before that, wars had permitted the major part of such international transactions as then existed, and almost all internal trade outside the actual battle-fields, to go on without great interruption. Even the considerable economic and blockade measures of Napoleon left a thousand loopholes, and were evaded in every direction. Before that, comparison is scarcely possible, and we can only generally discern here and there the drain of a generation or so of warfare, affecting the economics of the dynastic period of European history, or the Middle Ages. In 1914 half of Europe was cut off from the other half as with a knife. The repercussion was acutely felt in all neutral countries, most of all in the United States, where measures had to be taken that had not been resorted to since 1873. It was discovered that the sensitive machinery by which the circulation necessary to a system of credit was maintained, by cable, which permitted the conclusion of important bargains in a few minutes, cannot be hacked about with impunity. In some ways the belligerent countries were the less disturbed. They were at least preoccupied, and had hurriedly to adjust themselves to the new conditions. This was not so easy for those to whom the most temerarious decisions still lay open.

It is now said that something approaching panic conditions were seen in parts of London, that considerable quantities of gold were withdrawn, some of it at least being made into packets by individuals, and as such deposited with banks for safe custody. This infantile proceeding, however, cannot have been very widespread: time did not permit, initiative was lacking. Certainly nothing in London approached the stereotyped scenes of panic which the metropolis had witnessed a dozen times in two centuries. There was, of course, the fortunate accident of the intervention of Britain's favourite national festival, the August Bank Holiday. It would take more than a European war to prevent the inhabitants of the Fortunate Isles from claiming their half-century-old indefeasible right to this. One of the greatest strokes of genius that ever illuminated the divagations of any government was the prolongation of this closure of banks over the three days succeeding the declaration of war. It gave breathing space. And among the emergency measures then proclaimed was a general moratorium. All unconscious, the British nation passed through some hours of a most curious and crucial situation. The actual effect of the moratorium was that the banks of the country — and in no country in the world was the national wealth so completely represented by the figures on the books of its banks — ruled off the entire list of accounts of all their depositors. Although the widest discretion was allowed in cashing cheques of reputable firms or individuals, the entire banking system of the kingdom was empowered to refuse to repay any moneys deposited prior to the moratorium, and had there been, when the doors of the thousand offices of British banking reopened, after the prolonged holiday, anything approaching a rush (the traditional "run" of English history and fiction), there is no doubt that the banks would have been obliged to resort to the most

narrow scrutiny of the demands made upon them, and even to wholesale indiscriminating reliance on the powers of refusal the Government had given them, had the situation shown any signs of the gravity of 1720, 1825, or even 1866.

And then — nothing happened. This, so far as financial speculation is concerned, is probably the most startling development that has to be recorded in the entire length of this history. Prepared, undoubtedly, by a number of small happenings — the gradual roll of ever-changing national habit, the acuteness of perception now born of the second generation of primary education, the (within human limits) equable and steady demeanour of banking interests, foreshadowed in some degree by the new mentality shown in London in 1890 and in New York in 1901 — here came the first real test of the slowly emerging discipline and restraint of civilised nations existing upon credit. What the moratorium really did was to reduce the entire world (for the other nations could not have stood against the effects of a panic in Britain) to its simplest form of economic expression. Before any money could be demanded at the counter of the banks, fresh production had to take place, in order that the depositor might pay in new value to his credit. Little as any one realised it at the time, the world suddenly reverted to the Garden of Eden. Never, since some sort of accounts were first kept in Babylon, perhaps, had anything so drastic assailed the courage of human nature. No Indian famine, no medieval plague, could ever have fallen with such uniform obliteration upon the prime means of a civilisation.

We must not mistake the capacities of human nature. Neither did the framers of the measure, nor the banks, its operators, expect its theory to be tested to the full. A stout covering of the national phlegm intervened between them and the worst apprehension. The vast majority of the

public simply failed to grasp what had been enacted. Within a few hours, it was possible to be satisfied that no general "run" was taking place. By the morrow, business conditions, though disturbed and anxious, bore rather the expression that may be seen on the face of a man who has been plunged into deep water, rises to the surface, and is getting his breath, with perfect confidence as to his ability to reach the shore. Cruel cases of individual hardship there were, particularly those connected with alien and especially enemy nationality. But the mass of humanity, particularly the "common people", passed the test. The days of gold and silver were, at a stroke of the pen, relegated to the domain of history, along with the feudal and ecclesiastical machinery of early times. Like all great revolutions, this one was accomplished by the minute happenings and the silent effluxion of time, analogous in process to the formation of chalk at the bed of the ocean. No high-falutin' speeches signalised it, and the mailed fist of violence was powerless to turn it back. And if this was true of the British Isles, the least prepared, the least addicted to the exploration of theory, it was an easier matter for nations who, by the very declaration of war had been turned into immense machines for national purposes, the very running of which absorbed all the attention and demanded all the vitality of their component nationals. Thus, in economics 1914 may stand as important as, in general history, stands the beginning of the Christian era or the end of the Eastern empire.

The moment was less fateful for the other belligerents. All the major nations of Europe had been organised for national war-to-the-death for nearly fifty years, but as time was to show, the eventual effect was to be no less final.

In England, the first recognisable effect on the general public, as it readjusted itself after a week of almost physical

stupor, was frank incredulity. Speculative facilities had been immediately curtailed, in the narrow sense of the word. That is to say, it was no longer possible to make time bargains, to operate in differences, or to obtain financial support for the carrying of unpaid-for or unsubscribed securities, and many intricate adjustments were necessary to wind up existing bargains and, even more, to liquidate the unprecedented position which had naturally and instantaneously arisen from the abrupt severance of the international circulation of credit, and from the necessity of relegating to the unheard-of category of "enemy property" what had been, a few hours before, marketable commodities; and to provide for the treatment of those individuals and corporations, many of them established in London and other towns, for years or even for generations, as perfectly legitimate members of the trading public, as now subject to official supervision. It became plain, almost in a few days, how tiny was the terminal upon which stood balanced the great and vital inverted pyramid of credit by which such a closely knit town-dwelling community as Great Britain had become could alone be fed and served as to its daily needs. A great deal of hard thinking, hasty conferring, and rapid bookkeeping took place in the great financial offices in the centre of London in close connection with the Government departments concerned. Of all this the general public knew next to nothing and heard very little. A writer in the *Statist* has lately described the situation as one in which "landmarks" disappeared from the currency system. It would be no exaggeration to extend this description to the entire fabric of the economic life of the British Isles, and much of that of the intimately linked English-speaking and London-dependent civilisations overseas. Yet no outward evidences of calamity were visible. Incredible as it now seems to those who look back at it, the

British gold sovereign, by far the best-known and best-liked medium of exchange, not only within its native country, but throughout the world, the one inimitable standard of value that had suffered nothing from political upheaval, or the slower but more deeply reaching changes in the habits of the human race, the proud symbol of the golden age of Victoria, disappeared as if by magic from the circulation. Its place was taken by postal orders, hastily promoted to be legal tender, and shortly by treasury notes. This momentous break with the outward visible guarantee upon which credit had been supposed for a century to rest, was probably not regarded by most people as likely to be as permanent as it has since become, yet, even with this allowance, there remains the outstanding fact — nothing happened. The philosopher who felt, and rightly, that those days were ominous with doom, was soon able to find some comfort in the extraordinary discipline exhibited by the vast majority of English-speaking people. With other nations the discipline was more artificial. To the end now so disastrously achieved, European nations, fast merging into world war, had long been schooled. Perhaps it suited the United Kingdom and its dependencies and its nearest related nations all the better that the task of maintaining moral and, intimately connected, financial calm was left to the volition of the individual, supported by slowness of temperament, some slight geographical remoteness, and, once more, incredulity.

At any rate the pause was sufficient. By the time that bad news began to accumulate, that the North Sea was no longer an effective barrier and that the ends of the earth were involved, and all the oceans, the loose individualism of the Britisher had readjusted itself. The steadily mounting demands of the state of war slurred over the collapse of the demands for regular trade; further, the rapid enlistment of

hundreds of thousands of men, the frantic stimulus given to the activities of the existing, and the inception of new forms of voluntary organisation, to which the people of the British Isles are perhaps more prone than any other, fully solved all questions of unemployment, of personnel, and of the uselessness of existing machinery and organisation, which were met not only by the call of the new necessities of the situation, but by that characteristically English slogan "Business as Usual." However much this may have appeared to contemporary allies in the nature of a treachery, and inevitably to the future historian as a comic sidelight on an incorrigible mentality, it did at least help to reinforce the feeling of security which began to establish itself so precariously in the place of the easy-going satisfaction of obliterated peace.

According to all the probabilities that could have been forecast, according to the prognostications of many books that had actually been written during the preceding twenty years, even this phase should have been of short duration and have ended in even worse disaster. Not for the first time did war prove to be the greatest stimulus to speculation. As the situation increased in gravity, and statements were made that ammunition was being fired away in one day in quantities equal to the entire consumption of the South African War, as the burden of feeding and providing for immense fleets and armies became daily more onerous, the effect upon the speculative faculty was merely to shift its venue and place it under control, which, far from throttling it, gave it a sanction that it had never possessed, and made it master of a field that it had never contemplated. In this, the very unpreparedness of Great Britain and the United States' non-participation were actually of the greatest advantage. While in the properly organised countries conscription exercised its deadening effects on the individual

outlook and the corporate productivity, in these countries the war demands, instead of being regarded as an irksome duty, could be camouflaged as calls to national service, patriotism — heroism, indeed. It being impossible to invent a measure so comprehensive and so utterly alien to the psychology of English-speaking people as real conscription of all resources, to bring them under any effective compulsion, it was necessary to give the new way of life the air of something between a great competitive game and a newly discovered and highly profitable form of undertaking. The cruel injustices that fell upon individuals were obscured, discounted, or justified, and were no more deterrent to the mass *élan* than were the shocking lists of casualties of any weight in checking enlistment. True, the sea still prevented the islands of the United Kingdom from being overrun as France and Belgium, and subsequently Serbia and Roumania and Russia, were. It took Great Britain twelve months to bulk largely in the land fighting, and the United States over four years. Yet whatever grumbles this occasioned among allies, it permitted of an extra liberty to the speculative spirit, which was able, until the dire wastage of years began to exercise a cumulative effect, to regard the war with something more than equanimity. The case of neutral countries which remained non-participators to the end is not quite parallel. Spain, Scandinavia, Holland, South America had all less to lose and more to gain. In some of these States, owing to young or not primarily important financial organisation, the shock given to the major markets of credit instruments was little felt. Very soon great demands began to be made upon them, and in response vast changes began to take place in their social and economic organisation. Those States which bordered too nearly upon the belligerents suffered severely both in restrictions upon trade and upon supplies, and also

wherever they had been induced to embark or to depend upon capital which now became involved in the new designations of the time. With the Central Empires and their allies, the situation had been from the very first under perfect control. While hindered from any free intercourse with the outside world, there yet remained in the earlier stages a considerable body of American sympathisers, and the well-contrived facilities that German brains and forethought had provided in many a so-called neutral State. Thus not only were strategical advantages secured, but for a long while considerable leakage of materials and resources escaped through the cordon of world blockade, and the admirable liaison between military operations and conditions of supply enabled the effects of the actual situation to be minimised for over three years.

At this opening stage of the war period certain conclusions were drawn, some of them justified by the permanence of the new phenomena, some all too facile and destined to be disproved.

Only two years before, at the time of the war between the young Balkan States and Turkey, it had been freely stated that such "modern" warfare, which still depended largely on massed infantry movements, by troops trained in the German and Russian schools whose influence was then predominant, was only possible by reason of the fine physical qualities of the peasant conscripts of which such armies were composed. It was supposed that civilised Western Europe, especially its town populations, would fail to support the bodily, and even more certainly the moral, conditions of modern warfare. Never was prediction wider of the truth. Not only did the town populations adjust themselves to a war three times as long as and many times more exacting than anything that occurred in the military history of 1912, but

civilised nations were found capable of degrees of mobilisation which even the thoroughness of German preparation had never suspected. As the months rolled by, there were revealed the immense accumulated reserves that had been placed within the reach of even democratic governments by a little more than a century of industrialism. While the comparatively puny wars of the Middle Ages and the early nationalist period had frequently, with their laborious method of personal combat and individual destruction, wiped out civilisation over large tracts of country, even in Great Britain, for a generation at a stretch, the super-destructive machinery now let loose failed to achieve any such object. Reserves had been so multiplied, man's command over his conditions had so increased, means of replenishment had been so extended, that the worst of all recorded wars had, in many ways, in its earlier period at least, the most circumscribed effects. Thus not only was it possible suddenly to augment the interrupted, and in some cases almost annihilated, supplies of constructional materials, civil and military, land and marine, the immense quantities of food and stores, the metals and chemicals required for arms and munitions, but even for agriculture to flourish within a few kilometres of the trenches, as it may never flourish again, while credit, that delicate device that had been beyond all other facilities of civilised life, condemned as too frail to withstand even a week of the usage to which it was now subjected, appeared capable of indefinite extension.

There were, of course, certain important factors present which it had been impossible to foresee. For one thing, the combatants appeared at first to be very evenly matched, with the result that a state of stalemate supervened, and the actual fighting area became in a great measure localised. For another, the rapidly-developed "Geneva" philosophy of

humanity, even in the midst of actual clash of arms, reduced the wastage both by wounds and sickness, and had for a time a moderating effect on wholesale destruction. Yet another is to be found in the fact that the moral discipline of the populations involved, which had permitted the maintenance of credit within the two opposing camps, and allowed each of them access to the greatest of the non-participating commodity and credit markets, America, concealed one fateful and long-lasting effect of the situation which became early evident to the discerning in the perpetual, enormous, and apparently largely permanent drift of gold to that country. Further, a few of those who thought most deeply began to suspect that the figures of credit, apparently so easily created to meet the new demand, were rapidly attaining proportions that rendered them almost meaningless. This process, which concerns this work most nearly, was, however, slow and quite beyond the appreciation of the general publics of belligerent or non-participating nations. Thus it was that the speculative faculty, debarred from the usual operations of its professional nucleus, found ample, nay vastly increased scope, in the gigantic developments of factory and transport construction in almost every part of the world, which were but the symbol of an even larger financial activity. The initial phase of readjustment of the international markets of credit to two adversary and divided markets more or less dependent on a third, which existed outside of and free from the actual impact of the struggle, was so successful, that it put within the reach of the speculator opportunities for the exercise of his particular kind of initiative and organising power, of which he had never dreamed, and offered a vastly increased employment to all the machinery on which speculation habitually depends for its operations. For instance, plain accountancy never had been so vitally necessary as it

now became, and the depletion of the personnel of financial institutions, right down to the humblest office, was met by the use that it was found possible to make of women's labour. Here, then, arose a most ironic commentary on the feminist controversy that had been one of the perturbations of the previous fourteen years. It had little been suspected how much of the activity of a twentieth-century State could be thus delegated, and the fact that in some of the more arduous positions a slightly higher proportion of female labour was found necessary to produce the same result as male, caused no obstacle, for the very conditions of social life had created a surplus female population. Flotations — or what took the place of peace-time flotations — became rapid and widespread under the loose control and the lavish Government encouragement which was dictated by the urgencies of the need; profits rose, trade boomed, and the effect of the state of war, even in belligerent countries, and in the face of incalculable destruction of life and property, and shortness and gradually necessitated rationing of supplies, was that the level of existence demanded was higher than it had ever been in the most prosperous eras, and this, as we have seen, is one of the interacting stimuli of financial speculation.

If such conclusions may be drawn from the more professional and literally speculative element, the position as regards the passive speculator or investor was even more striking. It is hardly too much to say that entire populations now became members of the investing public. More, without any profession of collectivist theory, they became so at the bidding of Government initiative. There were weighty reasons for this. To begin with, it is obviously easier and cheaper to borrow from one's own nationals than through the medium of international financial organisations, and this was exaggerated by the fact that, under the strain of those

days, it became increasingly apparent that national currencies could not be maintained at the same level outside as within their own borders, except by artificial control.

Further, one of the dreaded and frequently prophesied difficulties of the state of war was the danger of hoarding. Not only does this primitive habit decrease the fluency of the currency and, as in the case of India, provide an almost inexhaustible drain upon the stocks of precious metals, which are by no means so resilient in war time as they are often thought to be in times of peace, when national authorities seldom have to test the fact by any very drastic measures of replenishment, but beyond these considerations, there was the urgent necessity to make the gigantic war a really national effort. Not only were the ordinary feelings of any directing class involved in this; from an early date, those in power were haunted by the spectre of what might happen did any considerable section of their respective publics begin, even passively, to repudiate the measures which had been, and were being taken, on their behalf and in their name. In peace time governments may change, and individuals and even classes rise and fall under the gradual pressure of circumstance or social growth; but with the tremendous concentration of material power that 1914 had brought about, the widespread distribution of lethal weapons, and the far more dangerous creation of a new, a war-time psychology, untested upon such a scale hitherto, individual holders of power very naturally felt that they could not make too sure that all energies were absorbed, and all resources dedicated to the prosecution of the struggle. Hence the unparalleled propagandist steps that were set on foot in all the countries concerned. A mere glance at Hardie's and Sabin's war posters shows how intensive and insistent was the effort to merge any dissociable property in the national resources.

The files of periodicals of the time are just as eloquent. How many processions, competitions, orations all had the same end in view? Under the stress, as ever, of the immediate and the obvious, the probable or possible remote effects of such activity were hardly considered.

Such was the general aspect of world affairs, as the human race (with negligible exceptions) discovered, with some astonishment, that it was possible to survive, in bulk, annihilation of the individual by physical death — and an annihilation almost as effective by complete absorption in national, that is collective, activity — and to continue to exist, although few members of any civilised community escaped an inarticulate sensation that existence was no longer the tranquil state it had been, but a progressive acceleration of a form of perpetual motion.

So definite was this latter, that it is not possible to give any accurate account of what may be said to be the turning point in the economics of the war years, because those years present the appearance of a continually dissolving view. Not only did events that were sufficiently important, considered by a pre-war standard, succeed each other with great rapidity, but the general state of mind was restless, rocked by apprehensions and anticipations of such dire import as to destroy the sense of proportion. Above all, there was the fatal illusion, with which we shall be presently concerned, that it would, one day, be possible “to go back to 1913”, using that date as the symbol of the average tenor of life prevalent before the commencement of hostilities. Nevertheless we may make out this much: during 1915 and 1916 both sides in the struggle expected to win rapidly and decisively, while the nations outside still hoped to keep clear of the struggle. During 1917 there began to grow some appreciation of the nature of the forces that had been loosed. One

after another, neutral nations became more or less willingly involved, and in greater numbers than those that the struggle obliterated. Thus the entry of the United States more than compensated for the cancellation of Russia and Serbia, and the efforts of the submarine campaign versus the blockade rose to even more fantastic heights. The strain imposed upon the man power, transport, and resources began to wear away the glamour of patriotic effort, and it became increasingly difficult and increasingly necessary to justify to the individual, especially the non-combatant, the restrictions upon everything, but especially upon personal liberty. This had a very intimate reaction upon economics generally. Up to the outbreak of the war, humanity had been passing, gradually and unevenly, from ownership by personal violence to ownership based upon some form of bargain. The boast of the Norman Earl de Warrenne, who, when asked for his title deeds, exhibited his naked sword, had been softened down to the milder vaunt of the man in the suburban railway carriage, or at the market, who has done well in rubber or mines, or has bought or sold houses or horses to his satisfaction. The tendency, present from the very decay of the feudal system, for property to carry more and more privilege, and less and less responsibility, had not been without its difficulties, complexities, and their natural results. As the notion of human equality spread and (with the legislation empowering women to hold property and safeguarding the rights of infants), literally every one became a potential owner and disposer of an individual accumulation, this freedom of the bargain began to create its own limitations. On the one hand, the impossibility of untold millions of transactions for every daily need began to call into operation corporate trading and the institution of regular services, and on the other, the demand for tranquillity and liquidity set up a

number of deliberated or implied bargains as between the individual and the State of which he was now a component part. The former process can be traced through guild activity, which we have already noticed, to limited companies, coöperation, and amalgamation, already a pronounced feature of British finance, — the latter, and actually the earlier one, in the growth of public indebtedness.

It was not, therefore, so much that the war created a new economic situation, as that it speeded up an existing acceleration in that department of material progress with which we are dealing. The outward signs were visible enough. When a market in credit instruments of the importance of London Stock Exchange ceases to issue an official list, and restricts operations to those undertaken for cash, it deprives the investor and the professional operator at once of their accustomed volition. It would have been bad enough had this resulted, as of old, from the necessity to check panic or reassure sentiment, but far more momentous work was on foot. All governments issued loan after loan, and took good care that their nationals absorbed the quantities of paper thus poured upon them. For there could be nothing else. America alone, during the earlier stages, received the major part of the gold in existence, and was finally loaned or hypothecated the securities of European holders on the guarantee of, and by the means of transfers manipulated by their respective governments. With most European and all belligerent countries no such intrinsic or guaranteed reserve was possible. Thus at a time at which property and productive energy were being destroyed as fast as ever during history, credit was being created on an equally abnormal scale. This again would not have opened up so critical a prospect had both sides been equally interested in the conclusion of the war. But the well-known fact that the victors, whoever they

were destined to be, dare not ask their own side to pay for the incalculable losses that had now fallen upon both, and would inevitably saddle the loser with the whole material cost, as far as it could be ascertained, plus indemnities in the shape of gigantic fines, for "moral" damage (according to an awkward habit which had been growing, and served to camouflage the persistence of the idea of the Roman "Victors' Triumph" with its looted valuables and crowds of slaves), intensified the efforts of both sides to win. So long as the actual warfare continued, there hung over the human spirit the purifying effect of real tragedy. Men were being slaughtered, women and children brought near to the level of lowest possible existence. When this restraint disappeared at the close of hostilities, the real nature of the state of war revealed itself. Never did the momentousness of the occasion more belittle the men who, for lack of any better, were left to rearrange the world. With regard to the general public, they had at least the excuse that, having borne the brunt of the suffering of those years, it could hardly be wondered at if they considered nothing too good for them. To this feeling may be attributed the boom conditions which at once set in on the partially released stock exchanges, and the rapid dissipation of so much of the savings that had accumulated, partly from instinct and good will, partly from the impossibility of spending with any scope or satisfaction in war time, and largely from the fact that it had been necessary during the concluding phases of the conflict to make many payments in the form of Government obligation not immediately or easily negotiable. A far more serious feature may not be realised in the actual conditions of what had always been declared to be a "just and lasting Peace."

The most obvious and convincing sign of the utter inadequacy of the calibre of the men who met at Versailles, and at

the minor scenes of the partitioning of the booty, was their total inability to be of one mind. They could never decide, however verbosely they concealed the fact, whether the sums of credit that had been created, so vast as to elude the comprehension and so complicated as to necessitate expert accountancy to unravel them, were part of a business transaction or of a pooling of national interests. Nor, again, could they decide whether their prime object was to "make Germany pay", or to prevent the energy and discipline of German industry and commerce immediately becoming competitors in the markets of the world. It was clear that both objects could not be simultaneously achieved, but the shocking nature of the spectacle was emphasised by the fact that the motives exhibited and the projects admitted to discussion were such that no one could be proud of the former, or pleased with the latter. The financial provisions of the various treaties were dictated by the lack of prevision inevitable in such assemblies, and have notoriously failed, in the main, of fulfilment.

The importance of this to us is that it left all the major countries of the world loaded with debt that could not by any means be satisfied, and inured to a mentality which showed itself in an immediate and universal inflation of prices throughout the globe. This was a necessary part of the situation. Figures had been rendered meaningless, there remained only the difficult and disagreeable process of reducing them to reason.

It is almost a question whether the defeated countries did not derive a postponed — but actual — advantage from their position. Sentiment, we know, plays a large part in the life of man, even an astonishingly large part in his business transactions. No doubt through central Europe there were, and still are, many sore hearts, and many minds that crave for the

glories of the 'seventies. But do these feelings weigh against the solid advantage of political reconstruction, the wiping out of practically the entire internal and external debt, the weight added to the call for industry and saving, the practical impossibility of spending a depreciated currency on other than necessities?

Here a distinction must be drawn between the different members of the ex-belligerents grouped together at the side of the Central Empires. The Austro-Hungarian monarchy broke up. There disappeared from Europe, after nearly two thousand chequered years, the representative of the temporal power of the Caesars. In the case of the Austria that emerged, of the various States now split off from it, and of its Balkan neighbours and Turkey, we can only gather scanty evidence as to economic effects, because all these countries suffered not so much from the direct effects of war (only occasional borders of them had actually been invaded) as from those of the intricate political gerrymandering, dictated at the various "Peace" conferences by motives generally bad, but even more often by sheer ignorance and incapacity. That is why to-day the name of Versailles is anathema in all Slav countries and many Germanic ones. Perhaps more so than is reasonable, for the main effect that interests us in this book is the fact that, however great had been the stress of war, and however inept the settlement, humanity in general had moved on so far, that the new States that sprang into being, and the reconstituted ones that had retained name and some characteristics, were not allowed to perish economically. There was even more in it than that. Alien Russia, which maintained a state of war against one power and another, for long after the main combat had ceased, and which even to-day stands aloof and in dubious contact with the rest of Europe, was the object of a great out-

pouring of charity. This is, however, only a minor factor in the financial reconstruction which from 1918 onward became urgently necessary. Under the auspices of the League of Nations, there was issued loan after loan, in the countries of origin, and on the London and New York markets. This process did not stop at States involved in the hostilities, but was also characteristic of neutrals. Scandinavian and Swiss municipalities were able to borrow for the urgent needs of reconstruction and the making up of years of neglected public works and widespread deterioration. At the very outset the pre-war scaremonger, whose every prophecy had been so whole-heartedly falsified by the event, had this much meagre justification, that the rates of such loans were very high. For a year or two it was possible to obtain a yield of eight per cent., especially by buying the American dollar issue common to all such loans, for already something of the immense aloofness of the United States was being felt, and European credit, from mere ineffectiveness, bore no higher value than that of some central or southern American States. So marked was this that even Great Britain had to give five and a half per cent. for precisely the same security as was soon marketable at par in Europe at the rate of five per cent. This period was, however, a comparatively short one. The better neutral state and municipal issues were very shortly retired, and their place taken by similar issues, substituted at rates ranging about six per cent. Lower than that they do not at present often fall, and this rise in the general yield (for similar nations or bodies before the war managed to market their obligations at an average of three and a half to four and a half per cent.) shows the persisting effects of the total and apparently permanent disturbance of price levels.

Such loans, however, were made under names that already bore a reliable sound in the stock exchanges of the world.

The real advance, almost the one gratification that the thoughtful man can derive from the horrors of 1914-1918, is in the flotation of entirely new States' public indebtedness, as initial as was the capital sum that founded the Bank of England or of France, or the financing of the now resuscitated archaic territorial divisions of Europe, that had had no separate economic existence since long before the inception of modern markets in negotiable securities. Thus the names of Czecho-Slovakia and the States of the Southern Baltic shore made their first appearance in the official lists of the stock exchanges of the world, favoured, and in many cases actually controlled, by the League of Nations, and rendered liquid, one must believe, by the large number of their nationals that had become citizens of the United States, the New York market having participated in all these issues. Even a further extension of this world-wide and conglomerate financial salvage was forthcoming to mitigate the effects of the subsequent disasters of Greece, while more lately the same principles have made it possible materially to improve the historically difficult position of Brazil.

The main protagonist in the struggle on the side of the Central Empires had, however, been Germany, and her difficulties and complexities were proportionately greater. From the time at which her representatives signed the Treaty of Versailles, under protest, and as compelled by *force majeure*, perhaps the most significant result was the, at first slow, but continuous and steady depreciation of German currency. This reached its climax in the military occupation of the Ruhr district in 1923, by French troops, and this act, as much as any other, testifies to the intangible nature of modern wealth, and must surely fortify our conception of credit as an entirely abstract, even sentimental creation, that can never, at the stage to which civilisation has now passed,



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be translated into terms of any material substances, be they precious metals, the possession of land, or even the control of plant and buildings in a full state of productivity. This last was the only justification that can be advanced for the step it was thought proper to take, with the avowed object of ensuring and expediting the payment of sums due from Germany to France, under the terms of the Treaty. Whatever other theory may be based upon the events, the fact is certain that this object was never achieved, and that no actual progress was made until the demands had been modified, the policy of seizure abandoned, and a further plan, under the name of Dawes, its founder, an American financier of distinction, substituted. The very necessity under which the contracting parties found themselves to adopt such a plan surely speaks volumes. Its main provisions, stripped of the detail which was peculiar to the case in point, and which to the general student can only add the complexity of bewildering figures, amounted to the admission that the creditor had not only to abandon claims and rights that were legally justifiable, but had to consent to the actual advantaging of the debtor, in order that he might carry out the revised stipulations of what would probably in private contract have been called a "composition." There would, in fact, have been nothing very striking about these happenings had the contract been a private one. But that is exactly what it was not. It never lost its character of one of those spectacular acts that bestar our history books, and into it, and mixed with the involved finance necessary to any modern international agreement, had been introduced the medieval notions of the prestige of the victor and the abasement of the vanquished. The call for such an orientation of what was properly a measure of economic readjustment was, after all, natural enough. France might have forgotten 1870, but

could not forget the ever-present advance of Germany in population, riches, and influence. A section of opinion was actuated by a thinly camouflaged desire for revenge, a larger section by the hope of crippling the Teutonic power permanently. Beyond France were the various small reconstituted or newly created powers, for whom the best that could be said was that they had little experience of the actual effects of the bargain to which they put their names.

Sanity came, and only just in time. The waning value of German currency, observable ever since 1918, under the influence of the seizure of the Ruhr, had run to actual collapse. Considerable immediate internal and external commotion had resulted, and was perhaps the strongest factor in restoring common sense to the erring councils of the nations. By virtue of the plan now set on foot, which has worked with reasonable smoothness to this day, the old currency was abandoned at the figure of one billion to one shilling sterling, and a new one founded upon loaned resources was substituted, and has maintained its level in the foreign exchanges of the world. At the same time Germany committed herself to an amended scale of secured payments which have been punctually fulfilled. Thus emerged in far more striking form than any learned argument could have given it, the fact that modern civilised nations cannot revert to the verbiage, much less the pretensions, of the warfare for ransom of five hundred years ago, and that it is quite possible to drive a modern nation beyond the bounds of distinction between self-damage and repudiation of contracts, into a disaster in which friend and foe alike suffer. In fact, modern economics are pronouncedly international, and one party to the agglomerate structure of credit, adjusted through foreign exchanges, cannot be ruined, or even effectively coerced, without wholesale disturbance running through the entire body.

It is permissible to hope that the worst effects of the peace policy have been anticipated. The harm that has been already done is sufficient to make one question, at moments, whether Europe will ever regain its old prosperity. Permanent damage can be seen in the fact that Germany, although enjoying a large measure of tranquillity, and even prosperity modified by a low standard of life, is definitely the poorer by the ruin of her most steady and reliable class. In America, on the other hand, the spectacle of European diplomacy at work alienated the sympathy of a large section of the public, and emphasised the general tendency to indifference as to European affairs. The most striking effect was, however, upon France, the country in theory benefiting the most directly from the Treaty of Versailles. The failure to make its provisions materialise left immense gaps in the already overstretched French budget. The decline of the franc had not been so sudden and continuous as that of the mark, but after the Ruhr failure it rallied with difficulty, and, as always, there was observed the symptom of weakened confidence, the lodgment by French nationals of their funds in foreign securities, or by deposit in alien banks. Politicians were entirely incapable and probably unwilling to tackle so thorny and thankless a problem, and matters drifted, with temporisation, until in 1926 the exchange took an increasingly adverse turn. The capacity of France for withstanding shocks that would have wrecked other nations was still strong, and the emergency called to power the very man whose Ruhr policy had been so inimical to economic betterment. From July, 1926, the artificial safeguarding of the currency was taken in hand, but once again it was the improved public sentiment, the feeling of confidence in the Government, that enabled the value of the franc to be continuously improved until it reached approximately 124 to the pound, or

about one fifth of its pre-war value. Here it was recently stabilised.

Beyond such effects upon the principal participants, the repercussion was very wide. Dismissing the enigma of Russia, the troubles of Mediterranean States, and the new creations of the Peace, only three countries, Sweden, Holland, and Switzerland, maintained their exchanges in a creditor state. Almost every other nation was affected, either by the uncertainty of monetary conditions, or by the even broader effects of the sudden, however much anticipated, effects of the necessity of turning back to the uses of peace all the means of life of the modern world, that had all too successfully been turned to the use of war. The actual labour of altering the setting and gauging of the machinery of a large factory strikes the mind forcibly as a lengthy, difficult, and possibly expensive task. But although it had to be performed in thousands of factories, it was as nothing beside the far more difficult one of changing the habits of a people, or adjusting systems that had worked tolerably before the interference to which they had been subjected. This latter tendency could be observed more clearly in the history of Great Britain and the United States during the post-war period.

The immediate effect of the Armistice was to reveal the immense development that the four and a quarter years of war had achieved, not only in every superficial appearance, but in the very spirit of the people. There was the mere material difficulty that immense national fighting forces, that had been created piecemeal by all sorts of voluntary methods, and finally by compulsion, had now to be disbanded with the utmost haste, not only so that productivity should be resumed, but because there was instantly felt the extreme danger of keeping such a body in the new mentality under the

inevitable restraints of the life of fighting service. The Britain that thus resumed peace conditions did so in a "boom." It should perhaps rather be described as a "super-boom." It was soon seen to be something of a dimension that left out of all comparison earlier occurrences that had been described by the same word. Government securities, railways, mines, rubber, breweries, had all become the "markets" that we know by virtue of a "boom" phase. It is indeed difficult to see in this anything else than the inevitable form through which the growth of such institutions is bound to pass. The post-war boom differed in that practically all markets were affected at the same time, in more or less equal degrees, according to their size and nature. At the same time, they were intensively busier than ever before. And this kernel of boom psychology was surrounded by a much wider body of speculators, which made itself evident outside the specialised and organised markets of Stock Exchange securities. Landed property of almost every description rose sharply in value. This was particularly noticeable in regard to dwelling houses of every description, and the very slow-moving passivity of agriculture was disturbed. Even beyond this, and its allied market in every manufactured commodity and the great facilities of modern life such as transport, the speculative spirit was found invading spheres in which it had been hitherto but little apparent. Every official, every skilled workman began to wonder whether it was not possible to enhance the value of his particular product, every one engaged in the marketing of commodities began to hope for a bigger margin of profit.

The reasons were not difficult to discover. The demobilised felt that nothing was too great a reward for all they had undergone, especially the constraints necessary to fighting services and their auxiliaries. On the other hand, those

who had escaped the more direct impact of war had become habituated to unheard-of demand acting upon an ever more limited and onerously organised supply. War had brought about a state of things in all the major industries of a highly and densely civilised country like Great Britain, that the most sanguine had never hoped to see. Coal and hardware, textiles and agriculture, had never envisaged such prospects. The effect was instantaneous upon transport, and was exaggerated by the loss of tonnage in shipping, and the large indemnities due from the Government to the railways in respect of the use that had been made of them during the struggle. And the realities of the situation were lent an even more imposing aspect by the alteration in price value. It was very difficult for those not engaged in accountancy to remember that the gigantic sums of credit that had been created had multiplied figures by two, without altering the intrinsic value of a commodity, even of a Stock Exchange security, and apart from any other fluctuation caused by the exigencies of dislocation of supply by war. The climax was reached in October, 1920, when the first real break in prices occurred. By that time it was possible to gauge how far the speculative element had entered, not only into business, but into the very life of the people of the United Kingdom. On the London Stock Exchange, in the premier market of Government securities, there had been issued stupendous amounts of public indebtedness. And for the first time it had been issued either at a discount, like the Funding Loan, which was subscribed at eighty, or at a premium on redemption, like the various categories of National War Bonds. Thus the fluctuation in value of the kind of security which had, *par excellence*, always been regarded as an investment of the purest kind, and the antithesis of a speculation, had fluctuating capital value deliberately added to it, not by any act

of the "investing" public, but by deliberate design of the issuing authority. Thus was speculation canonised. It was no longer good enough to say to the Briton, "Here is a perfectly sound national security, bearing five per cent."; he had to be induced by the certainty of appreciation, and the chance that, with any approach to pre-war levels of interest, there would be added a considerable further margin of profit. And here the issuing authority appeared for some time, at least, to have been at fault. Up to the collapse of the first and sudden post-war, we may even call it the Peace boom, the speculative element ran completely away with the situation. The Stock Exchange was deluged with new issues. Nor could this be wondered at, much less prevented. Hardly a business in the land but must find fresh capital, if only for the reconversion of its machinery or the reconditioning of neglected plant. On the top of this came the desire of the very far-seeing to get out of what they felt to be a hollow situation. It was thought, even as late as 1920, that a "bull" position could not be made permanent. And the plethora of issues was taken up. Allowing for professional intervention, engaged in the congenial task of passing on to the small and more or less permanent holder the blocks of shares that came so readily to market, there remained the fact that for the first time a considerable portion of the population had become possessed of some sort of credit instrument. The new point of view facilitated the transfer into more lucrative types of holding, a step that would never have been dreamed of by the pre-war small depositor in savings bank, "friendly" or coöperative society, and which had always been naturally impossible to the hoarder of coin or the possessor of a small holding of land, or a minor workshop owner.

On the contrary, there was in England at this time considerable buying of farms by the lessees, under various forms of

more or less powerful inducement, on the part of the former and generally larger owners, who began to feel the inflated cost of repairs and the ever-rising tide of taxation beat fiercely upon the return upon landed property, which was to a large extent shackled by the legislation to prevent speculation in rents, based upon scarcity and the altered value of money. Again, whole sections of the professional and cognate classes were even more literally forced to buy a place wherein to live. The housing shortage was at the moment very acute. Actual destruction, neglect, and the impossibility of new construction during the war period were aggravated by the demand resulting from the vastly risen standard of living, which had caused whole classes to come from the cottage to the villa.

Such shifting of capital, however, by no means accounts for the amount of new, mainly industrial, issues absorbed, and we can probably account for the balance by the sales which caused the major British war issue, the five per cent. War Loan, which amounted to a total figure of no less than £2,000,000,000, to fall to a price of eighty, while similar declines were to be seen in the price of issues of the other categories that went to make up the £8,000,000,000 of Britain's public debt funded.

We may well ask ourselves what termination would have been put to such a phase at any other period of the history of economics. One can imagine the ensuing scenes, in London or New York, at any time up to the end of the nineteenth century, the frenzy to "get out" at all costs, the embarrassed banks, the culmination in the suspension of the Bank Act or the closing of the Stock Exchange, according to native habit. When the end did come, it was remarkable that none of the usual visitations fell upon the inflated credit organisation. And the more so because no single panacea had been in-

vented. Losses there were, cruel ones to individuals, and an immense fall in share values, even a greater one outside, in commodity markets, though the reduction of the figure attributed to real property was more gradual and never so great. Yet with all the proper incitement to panic, once more, as in 1914, nothing happened immediately. The credit for this escape may be shared among the general public, the various bodies that influenced, if they did not control, the machinery of credit, and a further set of imponderable and often accidental factors. The great change which seems to have occurred in the general financial public was the effect of innumerable lessons in not putting all the eggs in one basket. The fact that falling prices caused no panic is the significant point. In other words, the majority of holders no longer hoped, as they did in 1720 or 1825, to make a fortune immediately and undeservedly by the irrelevant rise in the price of the most recondite form in which wealth can be held — negotiable securities. The speculative element had by this date become so mixed with the investing that the pure gamble had been largely obliterated. Thus, although losses in the aggregate were severe, the individual impact and the nature of those losses did not lead to beggary. There were either other prospects to look forward to, or means of recoupment. The sort of control exercised by the major financial institutions had altered in character. The Bank of England raised its rate to discourage the creation of fresh credit. But next to it, the institutions through whom the actual administration of credit in contact with the public took place, were completely changed in character. Instead of some hundreds of small banks, mainly private, and following in their policies the idiosyncrasies of their owners, and only obliged to the most meagre forms of publicity or criticism, there had arisen twelve great amalgamations, uniform in character, habit,

and policy, with resources that Solomon never dreamed of, and able to perform feats that Aladdin might have considered miraculous.

These giant combinations acted as a buffer between the actual penalisation of increased borrowing, which it was now thought necessary to undertake, and the trading community. Owing to size, and somewhat to tradition, there was no wholesale calling in of loans, although the terms of borrowing were raised, and an increased discrimination exercised. This was facilitated by the mere size of the reserves at their command, and by a fair sense of public responsibility. They had, in fact, parted from the mentality of the menaced individual, and, contrary to the old panic psychology of the small personal or local bank, saw not only their interest but their safety to rest, in the last resort, upon an extremely wide and cautious application of the deflatory principle. With regard to the more professional users of credit, the facilities to carry shares were gradually withdrawn, while outside, among the public of relatively investing habit, the lending of money upon such securities had never been allowed to go too far, and only with very wide margins of safety. The position was more serious with regard to loans made upon the plant and buildings of the immense number of newly created companies, and upon residential and agricultural property. The great bulk of this shifting of ownership had been done through the banks, and the conservative policy that had been pursued was fully justified. The few big banking companies suffered no material reduction in prestige, only one or two small and specialised houses failing, and these not necessarily as a direct result of the crisis. Next to the banks stood the other financial institutions, also, with one or two exceptions, and one notable case of malfeasance, immune from disaster.

So far, therefore, as general stability was concerned, Great Britain had much to be thankful for, and even certain evidences of change in the national character to congratulate herself upon. As time went on, however, it became evident how great a danger had been run and how impossible it was to prevent all the consequences of the war, and the peace that had concluded it. If panic, political upheaval, and currency disaster had been avoided, nothing could bring back the easy and somewhat thoughtless prosperity of pre-war days. And from 1920 to the present time, the history of British economics has presented a curious and not altogether wholesome spectacle. It might almost be said that the crisis of 1920, smothered so effectually at the moment, has smouldered ever since. While bankruptcies were largely tided over, and stock and share markets have remained in a liquid state, even rising to boom conditions in certain markets such as rubber in 1925, and sections of industrials at various periods, while foreign exchanges have been steadily improved from the figure of \$3.50 to the pound sterling, to par, as regards the United States, and par or premium, as regards other countries, every thoughtful Briton feels uneasy when he reflects that beneath this apparent strength lies the fact that every one of the major industries of the country is suffering from an apparently permanent reduction in markets, that over a million productive pairs of hands are idle and apparently doomed to remain idle, and that the premier pre-war securities in which the savings of a generation and of more than one class of the community have long been sunk, have been depressed to half their value, and cannot rise on account of the dead weight of new and higher-rated indebtedness that no expedient in conversion succeeds in removing. The explanation of the phenomenon lies in the complete dissociation of finance from industry. The adverse factors of the situa-

tion are sufficiently well known. The largest single industry in England of general dispersal is still agriculture. For a long time competition of foreign grain, dairy produce, and meat has been causing a slow permanent decline in its fortunes. As has been noticed, the temporary revival brought about by the war caused a considerable shifting of ownership on to the shoulders of the farmers themselves. When the war stimulus disappeared, the old troubles of the industry reasserted themselves in aggravated form. Not only can grain be produced abroad at a figure which permits it to compete in the British market, but for some purposes the qualities of foreign produce are actually preferred. The same is true of great quantities of foreign meat, that under modern scientific treatment can reach the British consumer in a stage impossible a generation or so earlier. With dairy produce the same difficulties occur, and all are increased by the deficient marketing organisation of British farmers, and their reluctance to coöperate. On the top of these disadvantages lies the onus of repairs and upkeep that used to be borne by the (often large) landlord, but now falls upon the new owner, who, in addition, has to pay for the accommodation afforded him by the bank, or other source by means of which he was able to buy his farm. In the case of agriculture, widespread disaster has only been averted by the nature of the occupation, its slow turn-over, and the conditions of the life that permit a very inexpensive way of living. Great efforts have been made, by subsidy and relief from imperial and local taxation, to ease the actual money strain, while further assistance is promised in the form of agricultural credits, and protection of home-grown food forms one of the main planks of a considerable political party.

Now there may be excellent political or even military reasons for encouraging the production of foodstuffs in Great

Britain, but from the economic point of view any industry that has to be subsidised and relieved, financed, and protected is not a flourishing industry. Nor, when we reflect that many of the troubles that have been familiar to the British agriculturalist are now beginning to fall upon his favoured brother in North America, it can hardly be hoped that speculation will ever again be attracted by the ownership and organisation of agriculture, and when speculation abandons a whole field of activity, it means that such a one drops out of serious economic contemplation.

The largest of the single, specialised, and localised British industries is that of coal mining. Its problems are really not far removed from those of agriculture. Its war-time stimulation is gone, the comparative ease and convenience of the incidence of coal seams in Britain have left the exploiter deaf to the demand for better organisation, skilled marketing, and careful treatment of by-products. The industry is necessarily faced with decreased consumption due to foreign competition, and is peculiarly liable to political and industrial interruption.

Perhaps most striking of all is the position of the cotton industry. Here, according to some authorities, the financial stringency of 1920 was a mere incident. No industry was so completely disorientated by the stimulus of war. Fortunes were made so easily, the demand so permanently exceeded the supply, that all sense of proportion was lost. The worst features of speculation were to be seen in the somewhat reckless creation of new capital, the height of prices, and the complete disregard of such tendencies as the continual sale of machinery to possible foreign competitors. It seems almost inevitable that an industry so constituted should eventually be faced with its present difficulties, had it not been led so far astray by war-time mentality. There is, however, an

even worse feature in the case of cotton. Agriculture and coal are founded upon the actual soil of the country, and, at worst, have always a potential home market in times of stress. Cotton is typical of modern England, the colonially-minded island, divorced by theory and habit from neighbouring Europe, and, by virtue of an early lead in commercial and mechanical development, living and prospering upon the turning of some exotic and far-fetched substance into a finished article that can be exported. This is obviously, in the modern world, a vulnerable position. Year by year, the ends of the earth are being opened up, civilised, equipped. Certainly in the case of the cotton industry this factor has been marked and decisive. From a quarter to a third of the market is gone, and this does not count the possible effect of hostile tariffs that may be exacted to protect nascent foreign spinning.

The reflex action of these three industries alone upon the transport system has been very marked. The railways emerged from the war with the same disadvantage as the older Government securities, that they could not hope to offer a rate of interest to compete with the new level of return upon first-class borrowing. They made use in most cases of the Government indemnity, in order for a short while to be able to maintain fair dividends. But gradually the effect of increased expenditure and decreased earnings made itself felt, and could not fail to do so, as smaller quantities of commodities had to be carried, and fewer of the non-car-owning population could afford to travel. The competition by road had increased, and the industry always was susceptible to considerable industrial upheaval. The condition of the shipping industry was very similar. War-time dislocation of demand was succeeded by inevitable recrudescence of competition and diminution in cargoes. And both these industries had

their further effect upon the hardware trades that had, naturally, their own troubles to contend with. Thus, beneath the apparent strength and resilience of finance, lay depths of lessened production, diminished saving, and lost capital. The fact that the great banks who mention "provision for bad and doubtful debts" in their balance sheets but do not state what these have been and have yet maintained so strong a front, argues that their lendings in these industries were well secured and their actual losses not sufficient to affect their immense and ever-mounting reserves.

The investing public has obviously suffered. Yet there appears to be no lack of fresh capital, as over the intervening years the flood of new issues has mounted higher than ever it did in the post-war boom, and bankruptcies have lessened in amount. Where, then, is the "swallow-hole" into which so much of the old solid substantial British prosperity has so unobtrusively sunk? And what resistance can be expected of the layer of fluid credit that floats above it, and superficially but effectively conceals it? It must be feared that the chief sufferers have been the docile British working class. When it was felt in 1920 that something must be done to deflate the balloon of borrowing, one of the first and most permanent effects was the rise in the figures of unemployment. The members of this class who had not been engaged during the war in actual combat, but had remained, some by choice, some by deliberate selection on the part of the executive powers, in munitions and in the trades necessary to maintaining civil life, found their standard of living revolutionised. Of the stream of credit created to meet the emergencies of that time, the portion that flowed into their pockets was in part retained in savings, for although they had long ceased to be of a hoarding character, like the peasant population of other countries, they had a considerable tradition of small

accumulation in various saving and kindred institutions which we have noticed, and every effort was made to increase the habit; but in part their suddenly augmented wages were expended in what the moralist may consider was an unwisely increased daily expenditure, encouraged both by the novelty of the situation and the war-time mentality.

We shall consider later how far the restricted scope of free choice left to them in such a matter should have been further restricted. At present we can only deal with the fact that their four years of apparent prosperity left them with revolutionised habits, but little additional permanent resource. The situation might have become very grave. Indeed, in the post-war years, Great Britain has survived several industrial upheavals of a magnitude and gravity that would have wrecked any nation less conservative by instinct, and whose tradition of civilised conditions was less matured. What we have to consider at this point is the effect of the continuous burden of so large a mass of unemployment upon speculation. Most obvious of all is its actual current expense. Fortunately for the national calm, the system of unemployment insurance recently organised has prevented actual starvation, and warded off, except on a few special occasions of excitement, open violence. Here we come abruptly to the end of the advantages to be derived from an artificially maintained financial prosperity. The whole of the directing and saving class of Great Britain has to pay a workless multitude, in size comparable with the fighting forces it maintained in the field in the early days of the war. Military life may be economically wasteful, but the burden is borne in the expectation of advantages that cannot be computed in money. What can we say of a similar drain in time of peace? It temporarily prevents civil strife. On the other hand, the unemployed, in the proportion amounting

at times to over ten per cent. of the insured workers, thus subsisting at a very low level, deteriorate in character and skill. Docility has always been their virtue. When this gradually changes to indifference, as it is to be feared is the case, the prospect of recovery from this state of affairs is obviously more difficult. The graver question is whether recovery is anyhow possible. Theories have been advanced that, had the deflationary policy of 1920 been differently effected, the results might have been less severe and continuous. There is, however, no proof of this. Two other factors have to be considered — the very considerable increase in the efficiency of machinery resulting from experiments during the war, and the sharp fall in the figures of emigration. This brings us back to the central fact of British economics — the confined area of the islands, their ancient exploitation, and comparatively advanced, and therefore expensive civilisation. There is therefore but little room for hope of expansion, and any effort towards reform must inevitably be towards intensive cultivation of resources, reorganisations, and, through both of these as well as independently of them, the cheapening of production.

The great mainstay of the United Kingdom during these years was that imponderable element known as “invisible” exports. Banking, insurance and freights, and miscellaneous services rendered, have been the rescue of the country from a far more spectacular decline, and have necessarily assisted in the dissociation of finance from industry. Yet no one is so bold as to view with equanimity the state of the home market. The very conservative London city man, of all but the most thoughtful type, is prone to reflect with satisfaction upon the vastly increased traffic of London, the excellent state of all the financial institutions. If stirred to argument, his stock theory is that “people must work harder and spend

less, especially the working classes." He would, one fears, be gravely distressed if he had pointed out to him how unpatriotic is such an utterance.

Great Britain's trouble is not that she does not produce, but that she cannot profitably sell her product. Of what use is more coal, cotton stuff, hardware, when the present quantity cannot be sold? Of what use is the attempt to reconquer lost markets by exports, bringing in an even smaller return than at present? This can only affect adversely the home market. Now here we stand on the brink of a fallacy. The old-fashioned county-town tradesman would always welcome any temporary stimulation of the local trade. A meet of the hounds, an election, a travelling show would move him to rub his hands and remark, "Look at all the money it brings into the town", regarding his unusually full till, that bounds his speculative vision, with satisfaction. Not for him the wide view of credit as an immense circle, on the speed and regularity of whose revolution depends the peace and prosperity of the earth. Yet his restricted instinct was not, on another plane, wholly at fault. The money earned by services supplied by Great Britain overseas comes back into the financial institutions, and is distributed in the form of dividends. A proportion, at least, of this passes into the continually mounting reserves of the great financial houses, or is spent abroad in one form or another by the dividend-taking class. On the other hand, the money distributed inside the country in wages passes to a far greater extent direct to the retail shop, and thus, in a week at longest, back to the bank. Now the acceleration of the local circuit of purchasing power means increased turn-over, which is the only healthy form of increasing credit. The force of this was seen all too clearly in 1920, when something like a paralysis, caused by the rapid contraction of the wages fund, appeared to have struck the

retail trade, which necessarily handed on its stagnation to the wholesalers who supplied the home market. Or the reverse case may be studied in North America, where the wage-earning population lives at a level unknown in the Old World, and the home market, with exceptions to be noticed later, flourishes. There are, of course, other elements in the comparison with America. Nothing is more striking to the Briton brought into close contact with the facts than the attitude of those of his countrymen who have had the skill and resources to "go to the States." After a few years, it may be, they come back to Europe for a "holiday" of the sort no European skilled working man dreams of taking, with a pocketful of travellers' cheques. But the tale they tell of having a job here or there, and having left one and found another, makes the stay-at-homes wonder. In Great Britain most males have to get a job, and stick to it, at their peril, often at reduced rates of pay, or at great inconvenience as regards housing and other accommodation. The contrast is very marked, and it cannot be believed that the psychological effect is entirely lost, for reasonable contentment depends not only on money, but on freedom of choice.

What, then, can Great Britain do? Obviously, not allow matters to take their own course. To begin with, this principle has already been abandoned in finance. The gap between finance and industry may have been useful in 1920. It is difficult to believe that it is a useful element in any policy of reconstruction — or rather construction of a solid prop of production, that shall secure the floating fluidity of credit achieved by invisible exports. For the weakness of the situation is precisely in the fact that these may disappear, as such large sections of other foreign markets have disappeared. Remote peoples of the earth, who have discovered how to make and sell their own cotton goods without sending

to Lancashire, how to supply not only themselves but the British Isles with food, who are able to supply themselves with coal or other fuel, and make their own hardware, may some day discover how to do their own banking, insurance, and shipping. In fact, they are beginning to find out. One after another the great banks of the United States have opened offices in London, while European institutions, whose London business was obliterated by war exigencies, have inevitably found their way back. They do not tap the ordinary domestic banking, but they do inevitably absorb a portion of those very services upon which the maintenance of the balance of trade depends, for Great Britain. The same process is even more visible in the field of large borrowing. It was inevitable, immediately after the war, that a large number of loans of the reconstruction type should be made in New York instead of, or as well as, in London. There has fortunately been some check to this tendency in the falling rates obtainable since 1920, and, for reasons diametrically opposed, American capital on the one hand and German on the other have found ample employment at home, and have left London still the premier financial market of the world. There can be little hope that this preëminence can be retained. Indeed, thoughtful inhabitants of the United Kingdom probably welcome the fact that every year finance becomes more markedly international. It is no unusual thing nowadays for large industrial issues to be made in such a form that they are marketable easily and immediately in New York, and to only a slightly lesser degree in Paris, Amsterdam, and Stockholm. To aid this consummation, comes the growing interrelation between all the biggest productive businesses of the various civilised countries. Thus any British patriot may draw considerable comfort for the future from two elements in the situation. The first is the

comparative slowness of the process, and the remarkable recuperative powers shown by all British financial institutions. This gives time for some solution to be found for the difficulties of the domestic market. The other is the fact that in the long run the internationalisation of credit may well be the salvation of a country which once drew its advantages, and now reaps its disadvantages, from its island situation. The thing which is slowly passing away before our eyes is economic nationalism. Never again must the British boast of a "right little, tight little island." To do so is to invite the natural fate of economic isolation. While things go well, isolation may mean immunity from the trouble of others. When things go ill, it means starvation. Or more shortly, economic isolation means restriction of opportunity. So long as opportunity lives at home, well. When it takes flight elsewhere, isolation is fatal. The sooner, therefore, that Great Britain can make her own prosperity important to others, the surer she is of a gradual and painless transition into whatever place is eventually reserved for her. She can never again hope for the preëminence she enjoyed during the major part of the nineteenth century. Nor can she hope to assume the internally self-supporting, externally apprehensive character of France. The more friends she makes the better, for in the ultimate future the nations that are now arising to new-found opportunities, to her disadvantage, must one day arrive at the phase she is now experiencing.

In complete contrast stands the extraordinary history of the United States during the same period. The war left America in possession, as has been said, of "all the gold in the world." This statement is figurative, but, so far as general purposes go, it is graphic enough. With the exception of minimum reserves retained in the national banks of the

belligerents, and of amounts in circulation in Holland, Switzerland, and Sweden, no gold was to be seen. Nothing so strongly supports the view of credit taken throughout this book as the positive disadvantages that the situation entailed. Not only was the United States forced to lend in order to set Europe on its feet, but in individual cases the less instructed American tourist in Europe found that his magnificent-looking gold eagle had a lower purchasing power than the dollar bill of the same amount. Such was the fate of isolated prosperity, and it is fortunate that it did not long endure. Enlightened counsels prevailed, and American economic intervention, of which the best-known example is the great loan called the Dawes Plan, which set Germany on its feet, has materially assisted European recovery. The main characteristic of American economics during the post-war decade, however, has not been any concern with Europe, but rather the reverse. The facts are well put by a paragraph in the *Economist*, quoted by the *National City Bank Monthly Review*:

The United States, which was a debtor country before the war, but brought back its securities and became a creditor nation during the war, has not increased its net credit position in the last seven years as much as is commonly supposed. For, though it has lent immense sums abroad, a large part of these loans have been bought by foreigners, while foreigners have invested on a large scale in American securities, and there has been a great increase in foreign balances held in the U. S. A.

Great Britain, on the other hand, whose foreign investments before the war amounted to something in the neighborhood of £4000 millions (twenty billion dollars), lost some of these investments — or, to put the matter in another way, lived upon its capital during the war. During the last seven years, however, our¹ net foreign investments have increased slightly faster than those of the United States, though not so fast as in pre-war days.

¹ It is the British *Economist* Speaking.

In the case of both England and America the net export of capital has dwindled in recent years. In the case of the United States, the diminished export is significant in view of the fact that the low yield on American bonds and stocks is a reflection of an ample supply of internal capital in the country, and a shortage of good home securities. This low rate contrasts strikingly with the much higher yield in foreign securities. In the case of Great Britain, the 1926 figures are unduly low owing to the coal dispute.

So far the exterior situation. The interior one is entirely and peculiarly American. According to any notion that we can derive from history, these years have been one long boom. Were some parallel to be found in any past event, we should expect the United States to have been ripe, any year of this period, for one of the most sensational collapses in history. But no such disaster occurs or has any appearance of occurring. This seems to postulate that the steady rise in investments has been accompanied by an equal increase in individual productivity, and by a slow but steady mounting of the standard of individual comfort. For there is apparent no considerable discrepancy between the production and consumption of motor cars (a typical demand of a highly civilised community), and as for the more usual domestic markets, an immense business of instalment purchase has been built up, viewed here and there by economists with alarm, but of which the doubtful feature — the actual consumption of the article for which payment has yet to be made — seems readily overcome by ever-increasing earning power. It is not as though there had been no checks to the process. There have been seasons of what in the United States is considered "serious unemployment" in volume that would excite no comment in Europe. There have been deliberate attempts at deflation on the part of the financial authority centred in the Federal Reserve system; there have

been "wars" of the typical American type in certain markets, and scandals which astonish the European by their magnitude. Yet, allowing for the vastly improved management of the national financial machinery, and a certain, though at present disproportionate share of the same amalgamation tendency which has done so much for Europe, allowing even for the unexploited resources of a vast and relatively new country, the long-sustained boom in financial values remains a breath-taking spectacle to the European. True, it is very widespread. It is said that every bell boy and hotel porter participates. And there remains at the back of it a solid mass of what used to be called "investment buying" of senior securities, home and foreign government and municipal issues, and major utilities. In this section the relatively low yield, from three and a fraction, up to a little over five, and in a few cases higher for foreign interests, or purely industrial concerns, is camouflaged by what is, in European ideas, a minute income tax. The yield, in fact, is almost net. Many of these bonds are difficult to obtain, which may reasonably be taken to show that they are held for investment purposes. Physical disaster seems powerless against a country so immense, and with such developed means of communication. Fire and earthquake, cyclone and flood that would wreck a smaller community, are ineffective against the closely connected resources of a continent. Is financial disaster possible? At the moment, it seems very remote.

Could peace and prosperity ever cause a collapse of credit, upon which the most destructive war on record could only impose a check, the effects of which are yearly being reduced and obliterated? The most marked feature of the control of national credit and currency during the post-war decade is the apparent anxiety of the variously named central reserve authorities, to be beforehand with the situation. Legally,

the credit supplies that accommodate this immense volume of high-grade existence are still linked to gold, a fact which is well on the way to becoming a curiosity. The supposition — and it has been nothing more in England or America for over half a century — that, in the last resort, the million individual bargains upon which all speculation, as well as ordinary trade, is founded, could be liquidated in gold, may seem to the modern mind a trifle cumbrous. The various public bodies concerned do not, in fact, act up to their creed. By manipulation of rates of interest and discount, that reverberate immediately through their several national financial structures, they keep a remote ratio between the figure of business done, and the ultimate standard of value, but never allow the theory on which national currency is based to approach within measurable distance of any test. The last reality that clings to the gold standard lies in the domain of the foreign exchange. Although the amount, symbolised by credit instruments, that passes from one country to another is immeasurably the greater, still the fact remains that gold does change hands in exterior transactions, as it never does in domestic ones, and must do so, as long as currency remains a national affair, dependent for its validity upon relations between governments that are not yet beyond jeopardy, and their nationals. Even so, the amounts available are never sufficient for the larger transactions which have to be carried out by credit expressed in bookkeeping, and it may well be wondered if the harm done by the retention of the so-called gold standard, perpetuating the peasant mentality that is never really sure of itself unless it can handle tangible metal, does not constitute one of the greatest obstacles to progress that we have to encounter.

This leads us to consider the inevitable basis upon which speculation is maintained in the modern State. The tenure

of land is founded, if we trace it back far enough, upon violence. The present rent paid by a tenant is the relic of the commutation of military service, in respect of which land was originally granted by the heads of early States, who had become possessed of it by conquest. Ownership has arisen from offering the original possessor a sum, in purchase money, capable of producing a return equivalent to the rent. But other forms of property tend to be held as, and even to be in their very essence, the subject of a bargain. The day when the individual, planted upon his plot of land, could provide most of his necessities is past in all town populations, and waning even among the agricultural communities or sections of communities. The result is the endless complication and limitation of modern life. Face to face with natural conditions — the soil and the weather, modified by drought or flood — man got what he wanted, or, more often, subsisted on what he could get, without much reference to his neighbour. Hence, as the reign of physical violence decreased, arose the theory of individual choice, and nowhere is it more widespread or persistent than among English-speaking peoples. In France, the theory of human equality, translated, as completely as physical circumstances would allow, into practice, stabilised great sections of the population at a fairly low level, or relegated others to some fixed or official capacity. Later, in Germany, the theory of mental discipline by education, and civil discipline of a strong military tinge, has produced a different, but equally rational relationship between individuals. In English-speaking countries there has existed from ancient times a very strong mistrust of theory. Now, theories which we may generally group as collectivist exist in Great Britain and in North America, in plenty, nor is this wonderful in view of the daily scramble which is the pronounced and typical aspect of life in London

and New York. But in the main, the principal theory that one hears expressed in English is "I can do as I like with my own", tempered with certain reservations as to "fair play." Thus we arrive at the paradox, that the more earnestly the inhabitants of these countries reject collectivist theory, the more the pressure set up by interacting individual choice limits every individual composing their populations. It is clearly impossible for the multitude of individual bargains to be fully adjusted, just as it would be impossible to balance the London or New York banker's clearing by specie payments in the old-fashioned way. Thus in these countries we find the greatest amount of standardisation. Housing and transport, clothing and food, finance and industry, tend to run upon stereotyped lines and to fall into fewer and fewer hands, for direction.

In Great Britain this tendency has already attacked speculation. Among securities held more or less permanently as investments this is inevitable, and, so long as the range is fairly wide, need not be a cause of apprehension. The case of really productive speculation is more difficult. Immense quantities of new issues have been lately floated, each exactly like the last, and mainly concerned with passing on to the public the onus of exploitation of more or less established private business, or of new processes that figure in the miscellaneous industrial market. Thus much of the "new money" — for much there must be, the figures are far too large to be accounted for by professional operations — is going to relieve those on whom it used to fall of their responsibility, and enable them to place the consideration they receive in stocks of an investment character, thus accounting for the remarkable steadiness of gilt-edged British funds. In America this ossification of speculation is not so apparent. The purchasing power of the home market has been well

maintained, and the invention of the share of no-par value, a curious reversion to the oldest type of share, that which the ships' crew used to take in a voyage, has prevented the stereotyped procession too familiar of late in London, of seven per cent. preferential issue, combined with shilling or other small denomination of deferred share with dubious prospects, which has been described as a mild form of gambling. Yet, at a more remote date, the development cannot fail to follow much on the lines that are characteristic of speculation in Great Britain. The very stress of competition, the huge size of the public possessed of that superfluity of purchasing power expressed in credit, some of which naturally seeks permanent lodgment in stocks of investment type, and the balance of which is available for dealing in fluctuating values, compels the constant systematisation of the machinery. What is more natural and inevitable than the gradual establishment of stock exchanges, and the slow but firm codification of rules, and even more of habit? And as, with every day, the process moves with the implacability of a glacier, so surely does the more adventurous, the freer element — speculation proper — tend to become squeezed out, or canalised into the channel of professional operation, in which the one healthy justification of the speculative faculty, the opening up of new industries, or the improvement of credit facilities, is lost sight of; or else into the mere manipulation of the opportunities afforded by the less practised and instructed section of investors and would-be speculators, upon whom securities of doubtful prospects can be unloaded; and this last is in itself an activity that is subject to immediate reaction, and is, in fact, the continual source of regulation by all well-constituted stock exchanges, that of London being at the moment engaged in reënforcing its rules respecting the wording of new issues.

Thus every successive wave of new issues, that floods any of the great markets of financial speculation, tends to be less in volume and less permanent in effect. In Great Britain, the early orgy of 1720 created something that had never before existed. The next, the railway mania, had permanent effects upon the system of transport of the country. That which launched the early joint-stock type of financial companies — banks and cognate institutions — has been largely obscured by subsequent development, and the successive gold rushes of California, Australia, and finally South Africa, have never attained the size or the celebrity of the earlier movements. Latterly, development of plantation and industrial shares, though bulking largely in amount, has never attained an importance proportionate to the new factors present in the financial world, the immense increase in the figures denoting credit, and the distribution of these over whole new classes of the population. In America, the process, far less obvious, can be observed in its initial stages. With the disappearance of the panic and the characteristic tomahawk "war" that used to shake the price of railroad and other stocks, as a leaf is shaken in the wind, has come a more decorous and stable phase. Great names have either disappeared, or have retired to a comparative security. In part this is due to the increasing strength of the national, and therefore impersonal central reserve authority, and in part to the tendency to amalgamation and fusion, less obvious than in London, but marked enough to have robbed the New York scene of that atmosphere of almost physical violence that used to be so characteristic. In the meantime, the vast stream of new issues tends to deal more and more with the conveniences rather than the necessities of life.

Yet a further influence may at any moment be brought to bear upon the present placidity of the markets for negotiable

securities. The dissociation of finance from industry has in many ways been advantageous in stabilising credit. But it has robbed the Stock Exchange of its character as a barometer of general industrial and social conditions. When, for instance, a slump or a strike paralyses an industry, the effect is far less direct than it used to be. Thus the state of stock exchanges is liable to be symptomatic of little else than very general and international conditions, and it would be hard to find a period of general depression such as used to exist when the boundaries of the field were national, and the misfortunes of one or two industries all-important. Yet it must always be recollected that credit is an extremely sensitive system that rests in the last resort on the general consent of the inhabitants, especially the taxpayers of any nation. So long as general conditions are not too oppressive, all goes well, but the effect of the palpable and now continued prosperity of financial institutions in a country like Great Britain, where basic industries are passing through critical times with little hope of recovery, is likely to need careful watching. The plain disparity between the fate of too many actual producers, and the speculating, investing class who can, at any moment, put into their pockets bonds, without mentioning other types of security, expressed in pounds or dollars, florins, kroner, francs, or marks, and migrate, sure of finding their possessions marketable in other parts of the globe, is too glaring to need emphasis. So long as the speculative investing class can prove its worth in stimulating experiment and providing capital, it is on solid ground. But it is becoming increasingly difficult for the individual shareholder to justify his existence. The accumulation of credit standing in his name is frequently not of his own creating, and often he has, and desires little discretion in its employment. It cannot be wished that he should have, unless he is to submit to some

sort of training, that which he has at present : being merely the general experience of business incidental to his other pursuits. Large sums, however, are nowadays lodged in various forms of security, by the actions of trustees, bankers, lawyers, or brokers, in various trustee or advisory capacities, while the mere volatile bulk of speculation proper is undertaken in the light of an entirely unregulated and unregulatable series of more or less direct and well-founded tips, varying from genuine private information about future prospects of companies, which those who have reason to know are willing to pass on to friends, relatives, and favoured clients, through the now fairly balanced, but necessarily only vague and general newspaper "city column" criticism, to downright bad and interested misdirection, restricted, in the United Kingdom at least, by the prohibition laid on advertising by members of the stock exchange. Indeed, what can the average shareholder do ? Apart from the fact that questions are not encouraged at annual or other meetings of companies, and the biggest market, that of Government issues, is only vulnerable to the most circuitous political action, the general moneyed public is without the means of setting in motion the highly specialised machinery by which the course of action of a limited or other company can be influenced. The best that has been evolved in England in the way of corporate action is the Council of Foreign Bondholders, or the occasional committees elected with great effort to deal with some special phase in the history of one individual concern. Beyond this, what can be done ? Sell out ? Of course, but that is to abandon, not to exercise control. Thus the vast majority of the modern share-holding public cannot any longer claim their one sure justification as a sort of impersonal court before which any undertaking has to justify its existence. Connected with this characteristic is the deteriora-

tion noticeable in most boards of directors, most of which are too large to be useful, too expensive to be reasonable, and always submit to their manager, on account of the technical complexity of modern business. Here, therefore, the irony of the situation provides far stronger and more effective criticism of the ownership of individual wealth than any collectivist theory has ever done. And this does not matter until there arises, as there is beginning to arise in North America, a large section of direct producers, the agriculturalists, who are now showing the most palpable mistrust of the moneyed section of the community, and beginning to challenge the dictation of the established order. No drastic results need be feared in the ultimate issue, so long as the world of finance remains plastic in habit, open to criticism, and receptive to new ideas. This is the difficulty, for as nations pass from their first impulse of national energy to a sort of middle age, all their institutions become rigid, the erstwhile leaders are not replaced. This is markedly the case in London, where any criticism is regarded with horror, and the main Government issues are looked upon as though made of some tangible and durable substance. In Paris, the phase is less marked, and more obscured by currency preoccupations. It seems impossible not to suggest that the immense public indebtedness created during and after the War and destined never to be paid off will, apart from any other deteriorating influences, go out of fashion. When this is understood — and the fresh view of a generation that neither knows nor cares about the hopes and fears of 1914-1918 cannot be long postponed — some means will have to be found to deal with the British five per cent. War Loan, and the parallel, and in some ways even more important, French issues. In the 'eighties, the interest on Consols was arbitrarily reduced, by successive stages.

In our own time, successive attempts at conversion have hardly touched the fringe of our problem, and France is, to say the least, no better situated. Nor need any citizen of the United States flatter himself that Federal and State bonds will forever maintain their present price and favour.

This history, then, concludes not as though looking back over something which has arrived at a final conclusion, but as pausing on the threshold of a new era. On all sides, politically as well as economically, national barriers are being broken down and overridden. Individual States, sunk beneath debt, or clamouring for capital they cannot themselves mobilise, must take wide views, and show themselves capable of new qualities, if they are to maintain their financial integrity. Speculative habit, rightly used and necessarily controlled, may do much, but only on condition that there can be created for its direction a body of intelligence and initiative that can put it adequately at the service of those humble laborious classes upon whose consent and coöperation it, and the very daily existence of civilised States, depend.

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